

NEW ISSUE  
FULL BOOK-ENTRY

RATING: Moody's: "A2"  
(See "RATING" herein)

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the portion of each Base Rental Payment constituting interest. See "TAX MATTERS."*

**\$11,900,000\***

**SANTA MARIA-BONITA SCHOOL DISTRICT  
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

**Dated: Date of Delivery**

**Due: June 1 and December 1, as described herein**

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. Capitalized terms used in this cover page shall have the meanings given such terms herein.

The Santa Maria-Bonita School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$11,900,000\* (the "Certificates"), evidence direct, fractional undivided interests of the Owners thereof in certain Base Rental Payments (which include principal components and interest components) to be made by the Santa Maria-Bonita School District (the "District") for the use of certain real property and the improvements thereon (the "Property") pursuant to a Lease Agreement, dated as of June 1, 2019 (the "Lease Agreement"), by and between the District, as lessee, and the Santa Maria-Bonita Capital Facilities Corporation (the "Corporation"), as lessor. The proceeds of the Certificates, together with other available funds, will be used to (i) prepay the outstanding base rental payments under the Lease Agreement, dated as of March 1, 2013, by and between the District and the Corporation and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates.

The District has covenanted under the Lease Agreement to make all Base Rental Payments and Additional Rental Payments (collectively, the "Rental Payments") provided for therein, to include all such Rental Payments as a separate line item in its annual budgets, and to make the necessary annual appropriations for all such Rental Payments. The District's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property. See "RISK FACTORS – Abatement."

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2019. See "THE CERTIFICATES" herein.

The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 or any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by U.S. Bank National Association, as trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to DTC Participants for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Book-Entry Only System" herein.

The Certificates are not subject to optional prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment."

The obligation of the District to make the Base Rental Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

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**MATURITY SCHEDULE – See Inside Cover**

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*The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District; for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California; and for the District and the Corporation by Price, Postel & Parma LLP, Cameron Park, California. It is anticipated that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about June 13, 2019.*

**RAYMOND JAMES**

Dated: \_\_\_\_\_, 2019

\* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the 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.

**MATURITY SCHEDULE\***  
**BASE CUSIP†: 802254**

**\$11,900,000\***  
**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP Number†
December 1, 2019	\$	%	%	
June 1, 2020				
December 1, 2020				
June 1, 2021				
December 1, 2021				
June 1, 2022				
December 1, 2022				
June 1, 2023				
December 1, 2023				
June 1, 2024				
December 1, 2024				
June 1, 2025				
December 1, 2025				
June 1, 2026				
December 1, 2026				
June 1, 2027				
December 1, 2027				
June 1, 2028				

\$ \_\_\_\_\_ % Term Certificates due [June][December] 1, 20\_\_ Yield \_\_\_\_\_% CUSIP Number† \_\_\_\_\_

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\* Preliminary; subject to change.

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# **SANTA MARIA-BONITA SCHOOL DISTRICT**

## **BOARD OF EDUCATION**

Vedamarie Alvarez-Flores, *President*  
John Hollinshead, *Vice President*  
Linda Cordero, *Clerk*  
JoAnn “Jody” Oliver, *Member*  
Ricky Lara, *Member*

## **DISTRICT ADMINISTRATORS**

Luke Ontiveros, *Superintendent*  
Matthew Beecher, *Assistant Superintendent for Business Services*  
Patty Grady, Ed.D., *Assistant Superintendent for Human Resources\**  
Mark Muller, *Assistant Superintendent for Instructional Services*

## **PROFESSIONAL SERVICES**

### **Special Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
*Irvine, California*

### **Municipal Advisor**

Fieldman, Rolapp & Associates, Inc.  
*Irvine, California*

### **Counsel to the District and the Corporation**

Price, Postel & Parma LLP  
*Cameron Park, California*

### **Underwriter’s Counsel**

Stradling Yocca Carlson & Rauth,  
a Professional Corporation  
*San Francisco, California*

### **Trustee**

U.S. Bank National Association  
*Los Angeles, California*

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\* Patty Grady will be retiring from the District effective June 30, 2019.

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

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

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

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

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

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

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

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## OFFICIAL STATEMENT

**\$11,900,000\***

### **SANTA MARIA-BONITA SCHOOL DISTRICT REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2019**

#### INTRODUCTION

This Official Statement (which includes the cover page, inside cover page, and Appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of Santa Maria-Bonita School District Refunding Certificates of Participation, Series 2019, in the aggregate principal amount of \$11,900,000\* (the “Certificates”). The Certificates evidence direct, fractional undivided interests of the registered owners (the “Owners”) thereof in certain base rental payments (the “Base Rental Payments”) to be made by the Santa Maria-Bonita School District (the “District”) for the use of certain real property and the improvements thereon (the “Property”), as more fully described under the caption “THE PROPERTY” herein. The Property will be leased by the District from the Santa Maria-Bonita Capital Facilities Corporation (the “Corporation”) pursuant to a Lease Agreement, dated as of June 1, 2019 (the “Lease Agreement”), by and between the District and the Corporation.

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, inside cover page, and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Certificates to potential investors is made only by means of this Official Statement.

#### **The District**

The District is located along California’s Central Coast, approximately halfway between San Francisco and Los Angeles. The District operates primarily in the County of Santa Barbara (“Santa Barbara County”), but also serves the County of San Luis Obispo (“San Luis Obispo County” and, together with Santa Barbara County, the “Counties”). The District was formed on July 1, 1988 from the merger of the Santa Maria Elementary School District and the Bonita School District. The District provides public education within an approximately 48.2 square mile area, serving the City of Santa Maria and neighboring communities. The District operates 20 schools, including 16 elementary schools and four junior high schools. The District’s enrollment was 17,122 for fiscal year 2017-18 and is 16,939 for fiscal year 2018-19. The District operates under the jurisdiction of the Santa Barbara County Superintendent of Schools.

For more complete information concerning the District, including certain financial information, see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION” herein. The District’s audited financial statements for the fiscal year ended June 30, 2018 are included as Appendix B, and should be read in their entirety.

#### **Security and Sources of Payment for the Certificates**

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2019 (the “Trust Agreement”), by and among U.S. Bank National Association, as trustee (the “Trustee”), the Corporation and the District, and evidence direct, fractional undivided interests in the Base Rental

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\* Preliminary; subject to change.

Payments to be made by the District under the Lease Agreement for the use of the Property. See “THE PROPERTY.”

The District will enter into a Ground Lease, dated as of June 1, 2019 (the “Ground Lease”) pursuant to which the District will lease the Property to the Corporation. The Corporation will then sublease the Property back to the District pursuant to the Lease Agreement. The Lease Agreement will obligate the District to make Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, reasonable administrative costs of the Corporation relating to the Property, fees and expenses of the Trustee, insurance premiums and other amounts payable under the Lease Agreement and the Trust Agreement as further described herein). Base Rental Payment and Additional Rental Payments are collectively referred to as “Rental Payments.”

The Trustee and the Corporation will enter into an Assignment Agreement, dated as of June 1, 2019 (the “Assignment Agreement”), pursuant to which the Corporation will sell, assign and transfer to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement, provided that the Corporation will retain the right to indemnification and to payment of its reasonable costs and expenses under the Lease Agreement.

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

Base Rental Payments are subject to complete or partial abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District’s right to use and occupy any portion of the Property. See “RISK FACTORS – Abatement.” Abatement of Base Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, could result in all Certificate Owners receiving less than the full amount of principal and interest evidenced by the Certificates. To the extent proceeds of insurance are available or there are amounts available in other funds established under the Trust Agreement (as described below), Base Rental Payments (or a portion thereof) may be made during periods of abatement.

**THE OBLIGATION OF THE DISTRICT TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.**

For more complete and detailed information, see “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES.” For a discussion of certain risks associated with the District’s ability to make Base Rental Payments for the Property, see “RISK FACTORS.”

### **Purpose of the Certificates**

The proceeds of the Certificates, together with other available funds, will be used to (i) prepay the outstanding base rental payments under the Lease Agreement, dated as of March 1, 2013 (the “Prior Lease”), by and between the District and the Corporation and (ii) pay the costs incurred in connection with



the execution and delivery of the Certificates. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

### **Description of the Certificates**

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 or any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to DTC Participants for subsequent disbursement to the Beneficial Owners (as defined in the Trust Agreement) of the Certificates. See “THE CERTIFICATES – General” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Interest evidenced by the Certificates is payable semiannually on June 1 and December 1 of each year, commencing on December 1, 2019. See “THE CERTIFICATES – General.”

The Certificates are not subject to optional prepayment prior to maturity as described herein. See “THE CERTIFICATES – Prepayment.”

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES,” “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” and APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The summaries and descriptions in this Official Statement of the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Continuing Disclosure Certificate and other agreements relating to the Certificates are qualified in their entirety by the respective form thereof and the information with respect thereto included in such documents. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Trust Agreement or the Lease Agreement shall have the same meanings assigned to such terms as set forth therein. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.”

### **Offering and Delivery of the Certificates**

The Certificates will be offered when, as and if executed, delivered and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, and the satisfaction of certain other conditions. It is anticipated that the Certificates will be available in book-entry form for delivery through the facilities of DTC on or about June 13, 2019 (the “Delivery Date”).

### **Certificate Owners’ Risks**

Certain events could affect the ability of the District to make the Base Rental Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Certificates to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic

Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than nine months following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than April 1, 2020) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

In the past five years, the District failed to timely file all of the operating data required by its continuing disclosure undertakings for fiscal years 2012-13 and 2013-14. Certain operating data for fiscal year 2012-13 was provided in the District’s fiscal year 2012-13 audit, but such audit was not linked to all outstanding CUSIPs of the District, so both the operating data and the audit for such fiscal year were not timely filed for all outstanding obligations of the District. Further, the fiscal year 2013-14 budget was not timely filed.

Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices was recently engaged as the District’s dissemination agent in connection with its prior undertakings and its undertakings relating to the Certificates.

### **Forward-Looking Statements**

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

### **Other Information**

This Official Statement is current only as of its date, and the information contained herein is subject to change. Copies of the Ground Lease, the Lease Agreement, the Assignment Agreement, the Trust Agreement and the Continuing Disclosure Certificate are available for inspection at the District and, following delivery of the Certificates, will be on file at the offices of the Trustee in San Francisco, California.

## **THE CERTIFICATES**

### **General**

The Certificates evidence and represent direct, fractional undivided interests of the Owners thereof in the principal and interest components of Base Rental Payments to be made by the District pursuant to the Lease Agreement.

The Certificates are dated the date of original delivery thereof and will be executed and delivered in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). The interest components evidenced by the Certificates will be due and payable semiannually on June 1 and December 1 of each year, commencing December 1, 2019 (each an “Interest Payment Date”). The interest evidenced by the Certificates will be payable on each Interest Payment Date to and including their respective Principal Payment Dates or prepayment prior thereto, and shall represent the sum of the portions of the Base Rental Payments evidenced thereby designated as interest components coming due on the Interest Payment Dates in each year.

The interest evidenced by the Certificates will be computed on the basis of a 360-day year consisting of twelve, 30-day months. Each Certificate shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after the 15th day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day (a “Record Date”) and on or prior to the following Interest Payment Date, in which case such Certificate shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to November 15, 2019, in which case such Certificate shall represent interest from the Delivery Date. Notwithstanding the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Certificates shall be in default, each Certificate shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

The Base Rental Payments evidenced by the Certificates will be payable by the District and deposited with the Trustee no later than the 15th day next preceding each Interest Payment Date (each a “Base Rental Deposit Date”). The principal components of the Base Rental Payments will evidence interest components calculated at the rates per annum, all as set forth on the front inside cover page of this Official Statement. The principal components of the Base Rental Payments will evidence interest components calculated at the rates per annum, all as set forth on the front inside cover page of this Official Statement. The principal evidenced by the Certificates will be payable on their respective Principal Payment Dates and Mandatory Sinking Account Payment Dates in each year and shall represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Dates and Mandatory Sinking Account Payment Dates in each year.

The Certificates will be subject to the Book-Entry System of registration, transfer and payment, and each Certificate will initially be registered in the name of Cede & Co., as nominee of DTC. As part of such Book-Entry System, DTC has been appointed securities depository for the Certificates, and registered ownership may not thereafter be transferred except as provided in the Trust Agreement. The Certificates are being delivered in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Certificates. Rather, in accordance with the Book-Entry System, purchasers of each Certificates will have beneficial ownership interests in the purchased Certificates through DTC Participants. For more information concerning the Book-Entry System, see “THE CERTIFICATES – Book-Entry Only System.”

While the Certificates are subject to the Book-Entry System, payments of principal and interest with respect to the Certificates will be made by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its DTC Participants for subsequent disbursement to Beneficial Owners of the Certificates as described herein. See “THE CERTIFICATES – Book-Entry Only System” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

**Prepayment\***

**Optional Prepayment.** The Certificates are not subject to optional prepayment prior to their respective stated Principal Payment Dates.

**Extraordinary Prepayment.** The Certificates are subject to extraordinary prepayment prior to their stated Principal Payment Dates, on any date, in whole or in part, in Authorized Denominations, from and to the extent of any insurance proceeds or condemnation awards in excess of \$50,000 paid with respect to all or a portion of the Property remaining after payment therefrom of all reasonable expenses incurred in the collection thereof (the “Net Proceeds”), deposited by the Trustee in the Prepayment Fund pursuant to the Trust Agreement, at a prepayment price equal to the principal evidenced by the Certificates to be prepaid, plus unpaid accrued interest, if any, evidenced thereby to the date fixed for prepayment, without premium.

**Mandatory Sinking Account Prepayment.** The Certificates with a stated Principal Payment Date of December 1, 20\_\_ are subject to prepayment prior to such stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on December 1 of the years and in the aggregate principal amounts as set forth in the table shown below, any such Mandatory Sinking Account Payments to be at a prepayment price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium:

<u>Prepayment Date (December 1)</u>	<u>Principal To Be Prepaid</u>
	\$

†

† Stated Principal Payment Date

If some but not all of the principal evidenced by the Certificates with a stated Principal Payment Date of December 1, 20\_\_ is prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “– *Extraordinary Prepayment*,” the principal evidenced by such Certificates to be prepaid pursuant to Mandatory Sinking Account Payments on any subsequent December 1 shall be reduced by the aggregate principal evidenced by such Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated among prepayment dates in proportion to the amount by which the principal components of the Base Rental Payments evidenced by such Certificates payable on such prepayment dates are abated pursuant to the Lease Agreement as a result of the event that caused such Certificates to be prepaid pursuant to the extraordinary prepayment provisions, in amounts of Authorized Denominations.

**Selection of Certificates for Prepayment.** Whenever less than all the Outstanding Certificates are to be prepaid on any one date, the Trustee will select the Certificates to be prepaid with respect to any prepayment as described above under the caption “– *Extraordinary Prepayment*,” among Certificates with different stated Principal Payment Dates in proportion to the amount by which the principal components of the Base Rental Payments evidenced by such Certificates are abated pursuant to the Lease Agreement. For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

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\* Preliminary; subject to change.

***Notice of Prepayment.*** The Trustee will mail (by first class mail) notice of any prepayment to the respective Certificate Owners designated for prepayment at their respective addresses appearing on the records maintained by the Trustee for the registration of ownership and registration of transfer of the Certificates pursuant to the Trust Agreement, at least 20 but not more than 60 days prior to the date fixed for prepayment. Such notice will state the date of the notice, the prepayment date, the prepayment place and the prepayment price and will designate the CUSIP numbers, if any, the Certificate numbers and the stated Principal Payment Date or Principal Payment Dates of the Certificates to be prepaid (except in the event of prepayment of all of the Certificates in whole), and will require that such Certificates be then surrendered at the Principal Office of the Trustee for prepayment at the prepayment price, giving notice also that further interest evidenced by such Certificates will not accrue from and after the date fixed for prepayment. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the prepayment of the Certificates or the cessation of accrual of interest evidenced thereby from and after the date fixed for prepayment.

While the Certificates are subject to the Book-Entry System, the Trustee will not be required to give any notice of prepayment to any person or entity other than DTC and as required by the Continuing Disclosure Agreement. DTC and the DTC Participants shall have sole responsibility for providing any such notice of prepayment to the Beneficial Owners of the Certificates to be prepaid. Any failure at DTC to notify any DTC Participant, or any failure of a DTC Participant to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment described below under “Effect of Prepayment.”

***Effect of Prepayment.*** When notice of prepayment has been duly given as provided in the Trust Agreement and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Certificates so called for prepayment will become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by such Certificates will cease to accrue and such Certificates will cease to be entitled to any benefit or security under the Trust Agreement except for the right of the Owners of such Certificates to receive payment of the prepayment price thereof.

### **Book-Entry Only System**

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered 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 Certificate will be issued for each stated Principal Payment Date of the Certificates, each in the aggregate amount of the principal evidenced by Certificates with such stated Principal Payment Date, and will be deposited with DTC. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

***Discontinuance of DTC Service.*** In the event that (a) DTC determines not to continue to act as securities depository for the Certificates or (b) the District determines to remove DTC from its functions as a depository, DTC’s role as securities depository for the Certificates and use of the book-entry system will be discontinued. If the District fails to select a qualified securities depository to replace DTC, the District will cause the Trustee to execute and deliver new Certificates in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Certificates are registered will become the registered Owners of the Certificates for all purposes.

The following provisions regarding the exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to DTC’s book-entry system. While the Certificates are

subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

All Certificates are transferable by the Owner thereof, in person or by his or her attorney duly authorized in writing, at the Principal Office of the Trustee on the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate is overdue, and the Trustee will not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee will require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount having the same stated Principal Payment Date in such Authorized Denominations as the Owner may request. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to transfer or exchange any Certificate during the period commencing five days before the date of selection of the Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor will the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

## **SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES**

### **Nature of the Certificates**

Each Certificate evidences a direct, fractional undivided interest in the principal component of the Base Rental Payment due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Base Rental Payments (based on the stated interest rate with respect to such Certificate) to accrue from the date of delivery to its payment date or prepayment date, as the case may be.

The Corporation, pursuant to the Assignment Agreement, will sell, assign and transfer to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement, including, its right to receive Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided that the Corporation will retain the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. The District will pay Base Rental Payments directly to the Trustee, as assignee of the Corporation. See "– Base Rental Payments" below.

## **Base Rental Payments**

For the use and possession of the Property, the Lease Agreement requires the District to make Base Rental Payments. The Base Rental Payments evidenced by the Certificates will be payable no later than the Base Rental Deposit Date. To secure the payment of the Base Rental Payments, the District is required to pay to the Trustee, for deposit into the Base Rental Payment Fund, on the Base Rental Deposit Date, an amount sufficient to pay the Base Rental Payment then due.

Pursuant to the Trust Agreement, the Trustee will on each Interest Payment Date, deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee will withdraw from the Interest Fund, for payment to the Certificate Owners, the interest evidenced by the Certificates coming due on such Interest Payment Date.

Pursuant to the Trust Agreement, the Trustee will on each Principal Payment Date and on each Mandatory Sinking Account Payment Date, deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or on each Mandatory Sinking Account Payment Date. On each Principal Payment Date and on each Mandatory Sinking Account Payment Date, the Trustee will withdraw from the Principal Fund, for payment to the Certificate Owners, the principal evidenced by the Certificates due and payable on such Principal Payment Date or upon earlier prepayment from Mandatory Sinking Account Payments.

THE OBLIGATION OF THE DISTRICT TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

**Base Rental Payments Schedule**

The Lease Agreement requires that Base Rental Payments be made on or before each Base Rental Deposit Date, which is 15 days prior to each of the following Interest Payment Dates:

Interest Payment Date	Principal Component	Interest Component	Total Semi-Annual Base Rental Payment	Total Annual Base Rental Payment
December 1, 2019 June 1, 2020	\$	\$	\$	\$
December 1, 2020 June 1, 2021				
December 1, 2021 June 1, 2022				
December 1, 2022 June 1, 2023				
December 1, 2023 June 1, 2024				
December 1, 2024 June 1, 2025				
December 1, 2025 June 1, 2026				
December 1, 2026 June 1, 2027				
December 1, 2027 June 1, 2028				
Total:	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**Additional Rental Payments**

The Lease Agreement requires the District to pay, as Additional Rental Payments thereunder in addition to the Base Rental Payments, such amounts as shall be required for the payment of all taxes, assessments of any type or nature charged to the Corporation or the District or affecting the Property or the respective interests or estates of the Corporation or the District in the Property, all reasonable administrative costs of the Corporation relating to the Property, the Certificates or the Trust Agreement, including without limitation all expenses, compensation and indemnification of the Trustee payable by the District under the Trust Agreement, insurance premiums payable under the Lease Agreement, any amounts with respect to the Lease Agreement, the Trust Agreement or the Certificates required to be rebated to the federal government, and all other payments not constituting Base Rental Payments required to be paid by the District under the Lease Agreement or the Trust Agreement.

**Covenant to Appropriate Funds**

The District covenants under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

**Abatement**

Base Rental Payments are paid by the District in each Rental Period for the District’s right to use and occupy the Property for such Rental Period. The obligation of the District to pay Rental Payments will be abated during any period in which by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District’s right



to use and occupy any portion of the Property. The Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect. The District and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the District during such Rental Period. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed, and to the extent necessary to pay unpaid Rental Payments, the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended more than 10 years beyond the Scheduled Termination Date; provided, however, that during abatement, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments will not be abated as provided above but, instead, will be payable by the District as a special obligation payable solely from said funds and accounts. For information regarding rental interruption insurance, see "- Insurance" below.

Abatement of Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. For a description of abatement resulting from condemnation of all or part of the Property, see APPENDIX A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Rental Payments – Rental Abatement."

#### **No Reserve Fund**

The Trust Agreement does not require a Reserve Fund in connection with the execution and delivery of the Certificates.

#### **Insurance**

The Lease Agreement requires the District to cause to be maintained casualty insurance insuring the Property against fire and all other risks covered by an extended coverage endorsement (excluding earthquake and flood), subject to a \$100,000 loss deductible provision, in an amount equal to the full insurable value of the Property. The full insurable value of the Property will not be less than the principal evidenced by the outstanding Certificates.

The casualty insurance required by the Lease Agreement may be maintained in the form of self-insurance by the District, in compliance with the terms of the Lease Agreement.

The Lease Agreement requires the District to cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation's loss, total or partial, of Base Rental Payments caused by perils covered by the casualty insurance described above, in an amount equal to the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The District may not self-insure for rental interruption insurance.

The District is also required to obtain certain public liability and property damage insurance coverage in protection of the Corporation and the District and worker's compensation insurance as described under APPENDIX A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Insurance – Property Casualty Insurance; Rental Interruption Insurance."

Although not required by the Lease Agreement, the District currently maintains flood insurance with respect to the Property.

The District is required under the Lease Agreement to obtain title insurance on the Property, in the aggregate amount of not less than the initial aggregate amount of principal evidenced by the Certificates, subject only to Permitted Encumbrances, as defined in the Lease Agreement.

### **Action on Default**

Should the District default under the Lease Agreement, the Trustee, as assignee of the Corporation under the Assignment Agreement, has the option to (subject to the restrictions described below) terminate the Lease Agreement. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay to the Trustee, as assignee of the Corporation, all damages recoverable at law that the Corporation may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement.

Without terminating the Lease Agreement, the Trustee shall be permitted (a) to collect each installment of Base Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (b) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for therein, the District remains liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Base Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Base Rental Payments that results therefrom; and further agrees to pay said Base Rental Payments and/or Base Rental Payment deficiency punctually at the same time and in the same manner as provided for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Base Rental Payments in excess of the Base Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. See “RISK FACTORS.”

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease Agreement and the Trust Agreement, see APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – Defaults and Remedies” and “– THE TRUST AGREEMENT – Default and Limitations of Liability – Action on Default.”

## **THE PROPERTY**

### **General**

The Property consists of the real property on which Isaac Fesler Junior High School (“Fesler Junior High School”) is located in the City of Santa Maria, California and the improvements thereon. Fesler Junior High School serves an average enrollment of 965 students in seventh through eighth grade. Originally built in 1962, portions of Fesler Junior High School were modernized in 2000. Fesler Junior High School contains approximately 16,193 square feet of building space on an approximately 11.56 acre site, including 43 classrooms. The site includes an administration building, a multipurpose building/cafeteria, including a

kitchen, 10 permanent classroom buildings, including a library building, 7 relocatable classroom buildings, 20 restroom facilities (staff and student), and 4 maintenance and storage buildings. Fesler Junior High School has two parking lots with 64 parking spots. The insured aggregate value of the Property will not be less than the principal evidenced by the outstanding Certificates.

### **Substitution or Release**

The Lease Agreement provides that, in compliance with the other conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. Any such substitution or release of any portion of the Property shall be subject to certain specific conditions set forth in the Lease Agreement, among which are that an independent certified real estate appraiser selected by the District shall have found that the Property, as constituted after such substitution or release, has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether, so long as, among other things, the Property, as constituted after such substitution or release, has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period. See “RISK FACTORS – Substitution or Release of Property” and APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – No Consequential Damages; Use of the Property; Substitution or Release – Substitution or Release of the Property.”

### **THE REFUNDING PLAN**

The proceeds of the Certificates will be used to (i) prepay the outstanding base rental payments under the Prior Lease and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates.

In order to refinance certain schools and support facilities, the District previously caused to be executed and delivered the Prior Lease in an aggregate principal amount of \$19,408,712. On the Delivery Date, a portion of the proceeds of the Certificates will be transferred to Capital One Public Funding, LLC, as assignee of the Prior Lease in order to prepay the outstanding base rental payments under the Prior Lease on the Delivery Date.

See “ESTIMATED SOURCES AND USES OF FUNDS” herein.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Certificates and other available funds are shown below.

### SOURCES

Principal Amount of Certificates	\$
[Plus/Less] [Net] Original Issue [Premium/Discount]	_____
Total Sources	\$

### USES

Prepay Prior Lease	\$
Costs of Issuance <sup>(1)</sup>	_____
Total Uses	\$

<sup>(1)</sup> Includes legal, Municipal Advisor, Underwriter's discount, rating agency, printing, and other fees and miscellaneous costs of issuance.

## RISK FACTORS

*The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

### **General Considerations and Other Obligations**

The obligation of the District to make the Base Rental Payments does not constitute a debt of the District or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay the Base Rental Payments from any source of legally available funds and the District has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make necessary annual appropriations therefor. The District is currently liable and may become liable on other obligations payable from its general revenues, some of which may have a priority over the Base Rental Payments. See "DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – District Debt Structure" herein.

The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Base Rental Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement.

## **Abatement**

In the event of substantial interference with the District's right to use and occupy any portion of the Property by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement." The Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect. In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from other funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or prepayment of the Certificates, there could be insufficient funds to make payments to Certificate Owners in full.

## **Absence of Earthquake Insurance**

The District is not required under the Lease Agreement to maintain earthquake or flood insurance on the Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance." The District does not currently insure against the risks of earthquake with respect to the Property and does not anticipate obtaining such insurance in the future. See "– Seismic Factors" below.

Although not required by the Lease Agreement, the District currently maintains flood insurance with respect to the Property.

## **Limited Recourse on Default**

If the District defaults on its obligations to make Base Rental Payments, the Trustee, as assignee of the Corporation, may (subject to the restrictions described below) retain the Lease Agreement and hold the District liable for all Base Rental Payments on an annual basis and will have the right to reenter and relet the Property. In the event such reletting occurs, the District would be liable for any resulting deficiency in Base Rental Payments. Alternatively, the Trustee may (subject to the restrictions described below) terminate the Lease Agreement with respect to the Property and proceed against the District to recover damages pursuant to the Lease Agreement.

Due to the specialized nature of the Property, no assurance can be given that the Trustee will be able to relet any portion of the Property so as to provide rental income sufficient to make payments of principal and interest evidenced by the Certificates in a timely manner, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Certificates. In addition, due to the governmental function of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and reletting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such reletting will not adversely affect the exclusion of any interest component of Base Rental Payments evidenced by the Certificates from federal or state income taxation.

## **No Acceleration Upon Default**

In the event of a default, there is no available remedy of acceleration of the Base Rental Payments due over the term of the Lease Agreement. The District will only be liable for Base Rental Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Base Rental Payments.

## **Substitution or Release of Property**

The Lease Agreement provides that, upon satisfaction of the certain conditions specified therein, the District may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE LEASE AGREEMENT – No Consequential Damages; Use of the Property; Substitution or Release – Substitution or Release of the Property.”

## **Bankruptcy**

**Generally.** In addition to the limitations on remedies contained in the Lease Agreement and the Trust Agreement, the rights and remedies provided in the Lease Agreement and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

**Bankruptcy of District.** The District may be eligible to become a debtor in a Chapter 9 bankruptcy case. If the District were to go into bankruptcy, it may be able to reject the Ground Lease or the Lease Agreement or assume the Ground Lease or the Lease Agreement, despite any provision of the Ground Lease or the Lease Agreement that makes the bankruptcy or insolvency of the District an event of default thereunder.

If the District rejects the Lease Agreement, the District's obligation to pay Base Rental Payments and Additional Rental Payments will terminate. The Trustee on behalf of the Owners of the Certificates will have a claim for damages in the bankruptcy case, but this claim for damages may be significantly limited. While the Corporation may be able to recover possession of the Property and re-let it, no assurance can be given that the new lease will provide for the same level of payments as the Lease Agreement. The Owners of the Certificates could suffer substantial losses.

If the District rejects the Ground Lease, the rights of the Trustee and the Owners of the Certificates to receive Base Rental Payments and Additional Rental Payments may terminate, even if the District remains in possession of the Property. While the Trustee on behalf of the Owners of the Certificates may have a claim in the District's bankruptcy, this claim for damages may be significantly limited, and the Owners of the Certificates could suffer substantial losses.

If the District assumes the Lease Agreement, it may be able to assign it to a third party, notwithstanding the provisions of the transaction documents, and thereby replace the obligation of the District to pay Base Rental Payments and Additional Payments with the obligation of the third party assignee to make such payments. While there must be adequate assurances of the future performance of the assignee, that determination is made by the bankruptcy court, not the Trustee or the Owners of the

Certificates, and the determination may turn out to have been wrong. There may be adverse tax consequences of such an assignment.

The District may be able to obtain authorization from the bankruptcy court to sell the Property to a third party, free and clear of the Ground Lease, the Lease Agreement, and the rights of the Trustee and the Owners of the Certificates. Under such circumstances, the Owners of the Certificates may suffer substantial losses.

The Trustee and the Owners of the Certificates would be prohibited from taking any action to enforce any of their rights or remedies against the District or its property, unless the permission of the bankruptcy court was first obtained. This could prevent the Trustee from making payments to the Owners of the Certificates from funds in the possession of the Trustee.

Actions could be taken in a bankruptcy of the District that could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. In addition, there may be other possible effects of the bankruptcy of the District that could result in delays or reductions in payments of the principal and interest evidenced by the Certificates, or in other losses to the Owners of the Certificates.

Regardless of any specific adverse determinations in a bankruptcy case of the District, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Certificates.

***Bankruptcy of Corporation.*** The Corporation is not a special-purpose bankruptcy-remote entity, and could become a debtor in a bankruptcy case. The District and the Corporation intend the assignment to the Trustee of all of Corporation's right, title, and interest to receive the Base Rental Payments and Additional Rental Payments to be an absolute sale and not the grant of a security interest in such property to secure a borrowing of the Corporation. Nonetheless, if the Corporation were to become a debtor in a bankruptcy case, and a party in interest (including the Corporation itself) was to take the position that the transfer of the Base Rental Payments and Additional Rental Payments to the Trustee should be recharacterized as the grant of a security interest in such property, then delays in payments on the Certificates could result. If a court were to adopt such position, then delays or reductions in payments evidenced by the Certificates, or other losses to the Owners of the Certificates, could result.

Because the Corporation is not assigning all its rights under the Ground Lease and the Lease Agreement to the Trustee, if the Corporation goes into bankruptcy, the Corporation may be able to obtain authorization from the bankruptcy court to sell to a third party all rights under the Ground Lease and the Lease Agreement, including the Base Rental Payments and Additional Rental Payments, free and clear of rights of the Trustee and the Owners of the Certificates. While the Trustee (and thus the Owners of the Certificates) should be entitled to receive the value of the Base Rental Payments and Additional Rental Payments as determined by the bankruptcy court, the bankruptcy court's valuation may be substantially different than the value placed on such payments by the Owners of the Certificates, and the Owners of the Certificates may suffer a loss.

Similarly, because the Corporation is not assigning all its rights under the Ground Lease and the Lease Agreement, it may be able to reject the Ground Lease and the Lease Agreement despite any provision of the Ground Lease or the Lease Agreement which makes the bankruptcy or insolvency of the Corporation an event of default thereunder. If the Corporation rejects the Ground Lease or the Lease Agreement, the rights of the Trustee and the Owners of the Certificates to receive Base Rental Payments and Additional Rental Payments may be terminated. Under such circumstances, the Owners of the Certificates could suffer substantial losses, and any claim for damages may be significantly limited. In addition, the Corporation may be able to sell or assign its leasehold estate in the Property, notwithstanding the provisions of the

transaction documents. It is possible that such a sale or assignment would result in the termination of the Lease Agreement. If the Lease Agreement does terminate, the District's obligation to pay Base Rental Payments and Additional Rental Payments would terminate. Under such circumstances, the Owners of the Certificates could suffer substantial losses.

The Trustee and the Owners of the Certificates would be prohibited from taking any action to enforce any of their rights or remedies against the Corporation or its property, unless the permission of the bankruptcy court was first obtained. This could prevent the Trustee from making payments to the Owners of the Certificates from funds in the possession of the Trustee. In addition, the provisions of the transaction documents that require the District to make payments directly to the Trustee, rather than to the Corporation, may no longer be enforceable, and all payments may be required to be made to the Corporation.

Actions could be taken in a bankruptcy case of the Corporation which could adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. In addition, there may be other possible effects of the bankruptcy of the Corporation that could result in delays or reductions in payments of the principal and interest evidenced by the Certificates, or in other losses to the Owners of the Certificates.

Regardless of any specific adverse determinations in a bankruptcy case of the Corporation, the fact of such a bankruptcy case could have an adverse effect on the liquidity and value of the Certificates.

### **Loss of Tax Exemption**

As discussed under the heading "TAX MATTERS," certain acts or omissions of the District in violation of its covenants in the Trust Agreement and the Lease Agreement, as well as certain other matters, could result in the interest evidenced by the Certificates being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the provisions contained in the Trust Agreement.

### **Hazardous Substances**

The existence or discovery of hazardous materials may limit the beneficial use of the Property. In general, the owners and lessees of the Property may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or lessee is obligated to remedy a hazardous substance condition of the property whether or not the owner or lessee had anything to do with creating or handling the hazardous substance.

Further it is possible that the beneficial use of the Property may be limited in the future resulting from the current existence on the Property of a substance currently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the current existence on the Property of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method in which it is handled. All of these possibilities could significantly limit the beneficial use of the Property.

The District is unaware of the existence of hazardous substances on the Property sites which would materially interfere with the beneficial use thereof.



## **Seismic Factors and Natural Disasters**

The District, like most regions in the State, and the Property are located in an area of seismic activity from movements along active fault zones and, therefore, could be subject to potentially destructive earthquakes. Additionally, numerous minor faults transect the area. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of severe seismic activity in the area of the District could result in substantial damage and interference with the District's right to use and occupy all or a portion of the Property, which could result in the Base Rental Payments being subject to abatement. See "–Abatement" above. The District is not required by the Lease Agreement or otherwise to obtain or maintain earthquake insurance for the Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance."

In recent years, there have been fires in both Santa Barbara County and San Luis Obispo County and flooding resulting in mudslides in Santa Barbara County. There was no damage or destruction caused to property within the District's boundaries as a result of such disasters and no property of the District's was damaged or destroyed as a result of such disasters. According to the U.S. Department of Homeland Security's Federal Emergency Management Agency, which compiles flood history data, the Property is in an area of minimal flood hazard. However, the occurrence of severe flooding or wildfires in the area of the District could result in substantial damage and interference with the District's right to use and occupy all or a portion of the Property, which could result in the Base Rental Payments being subject to abatement. See "–Abatement" above. The Lease Agreement requires the District to cause to be maintained casualty insurance insuring the Property against fire and all other risks covered by an extended coverage endorsement (excluding earthquake and flood), subject to a \$100,000 loss deductible provision, in an amount equal to the full insurable value of the Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance. Although not required by the Lease Agreement, the District currently maintains flood insurance with respect to the Property.

## **Economic Conditions in California**

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because much of the District's revenues derive from payments from the State, the District's revenues can vary significantly from year to year, even in the absence of significant education policy changes. Decreases in the State's general fund revenues may significantly affect appropriations made by the State to school districts, including the District. See "DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – State Funding of Education; State Budget Process" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

## **No Liability of Corporation to the Owners**

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

## THE CORPORATION

The Santa Maria-Bonita Capital Facilities Corporation is a nonprofit corporation, organized under the Nonprofit Public Benefit Corporation Law of the State on May 8, 1989, in order to render financial assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment and other public improvements, lands and any other real or personal property for the benefit of the District and persons residing therein, among other specific purposes and powers.

The Corporation functions as an independent entity and its policies are determined by a five-member Board of Directors, appointed by the Board of Education of the District to six-year terms, without compensation. All staff work is done by the District staff or by consultants to the Corporation. The Corporation has no employees.

The Corporation's articles of incorporation and by-laws empower the Corporation to act as lessee under the Ground Lease and lessor under the Lease Agreement.

## DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION

### Introduction

The District is located along California's Central Coast, approximately halfway between San Francisco and Los Angeles. The District operates primarily in the County of Santa Barbara ("Santa Barbara County"), but also serves the County of San Luis Obispo ("San Luis Obispo County" and, together with Santa Barbara County, the "Counties"). The District was formed on July 1, 1988 from the merger of the Santa Maria Elementary School District and the Bonita School District. The District provides public education within an approximately 48.2 square mile area, serving the City of Santa Maria and neighboring communities. The District operates 20 schools, including 16 elementary schools and four junior high schools. The District's enrollment was 17,122 for fiscal year 2017-18 and is 16,939 for fiscal year 2018-19. The District operates under the jurisdiction of the Santa Barbara County Superintendent of Schools.

### Board of Education

The District is governed by a five-member Board of Education (the "District Board"), each voting member of which is elected by voters within the District to serve alternating four-year terms. The members are elected to four-year terms in alternate slates of two and three and elections are held every two years. Each December the District Board elects a President, Vice President and Clerk to serve one year terms. Current voting members of the District Board, together with their office and the date their term expires, are listed below.

### SANTA MARIA-BONITA SCHOOL DISTRICT (Santa Barbara and San Luis Obispo Counties, California)

#### Board of Education

<u>Name</u>	<u>Office</u>	<u>Current Term Expires</u>
Vedamarie Alvarez-Flores	President	December 2022
John Hollinshead	Vice President	December 2020
Linda Cordero	Clerk	December 2020
JoAnn "Jody" Oliver	Member	December 2020
Ricky Lara	Member	December 2022

## **Superintendent and Financial and Fiscal Administrative Personnel**

The Superintendent of the District is appointed by the District Board and reports to the District Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and certain other key administrative personnel is set forth below.

***Luke Ontiveros, Superintendent.*** Luke Ontiveros began his position as Superintendent of the District on July 1, 2016 and was previously the superintendent of the Snowline Joint Unified School District ("Snowline JUSD"). A lifelong educator, Mr. Ontiveros began his career teaching junior high language arts and history in the Snowline JUSD, a K-12 district of 12 schools and 8,500 students in Phelan, California. After his classroom teaching years, he became an assistant principal then a principal in Snowline JUSD. He took a position as the assistant superintendent for curriculum and instruction in the Silver Valley Unified School District. Later, Mr. Ontiveros was hired as a coordinator in the Ontario-Montclair School District ("Ontario-Montclair SD"). He was promoted to other jobs in the Ontario-Montclair SD, including director of classified personnel, interim assistant superintendent for instructional services and finally the special assistant to the superintendent. In 2009, Mr. Ontiveros returned to Snowline JUSD as its assistant superintendent for human resources. He was superintendent there for three years before coming to the District.

Mr. Ontiveros was born and raised in Santa Maria, California and he attended Santa Maria-Bonita schools, St. Mary of the Assumption School and St. Joseph High School before earning a bachelor's degree in history at Santa Clara University in 1984. He received his teaching credential from California Polytechnic State University in San Luis Obispo, California and a master's degree in organizational leadership from National University in San Diego, California.

***Matthew Beecher, Assistant Superintendent for Business Services.*** Mr. Beecher currently serves as the Assistant Superintendent for Business Services of the District. As such, his responsibilities include developing and maintaining the annual budget, coordinating activities for accounting, attendance, purchasing, reprographics, food service, maintenance, operations, facilities and transportation. Mr. Beecher also reviews and prepares all State, county and regulatory reports. Prior to his appointment as Assistant Superintendent for Business Services of the District, Mr. Beecher served as the Director of Fiscal Services for the Lompoc Unified School District and also worked extensively in the private sector. Mr. Beecher received his Bachelor of Science degree in business administration, with a concentration in accounting, from California Polytechnic State University in San Luis Obispo, California. Mr. Beecher is also a licensed Certified Public Accountant.

## **State Funding of Education; State Budget Process**

***General.*** As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula or "LCFF") (see "*Allocation of State Funding to School Districts; Local Control Funding Formula*" herein) and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "*Local Sources of Education Funding*" herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has projected to receive approximately 74.46% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), projected at approximately \$166.77 million in fiscal year 2018-19. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*Allocation of State Funding to School Districts; Local Control Funding Formula,*" "*Attendance and LCFF*" and "*Other District Revenues – Other State Revenues*" below). As a result,

decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations, and, consequently, the District's ability to pay Base Rental Payments.

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

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

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2018-19 State budget on June 27, 2018.

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

**Aggregate State Education Funding.** The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given

fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

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

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

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

The District cannot predict how State income or State education funding will vary over the final Principal Payment Date of the Certificates, and the District takes no responsibility for informing owners of the Certificates as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

**2018-19 State Budget.** The Governor signed the fiscal year 2018-19 State Budget (the "2018-19 State Budget") on June 27, 2018. The 2018-19 State Budget sets forth a balanced budget for fiscal year

2018-19 that projects approximately \$133.33 billion in revenues, and \$83.82 billion in non-Proposition 98 expenditures and \$54.87 billion in Proposition 98 expenditures. The 2018-19 State Budget includes a \$1.96 billion reserve in the Special Fund for Economic Uncertainties. The 2018-19 State Budget uses dedicated proceeds from Proposition 2 to pay down approximately \$1.75 billion in past budgetary borrowing and State employee pension liabilities. The 2018-19 State Budget includes total funding of \$97.2 billion (\$56.1 billion State general fund and \$41.1 billion other funds) for all kindergarten through grade 12 (“K-12”) education programs. The 2018-19 State Budget provides \$3.7 billion in new funding for the LCFF, which fully implements the school district and charter school formula two years earlier than originally scheduled, including both a 2.71% cost of living adjustment and an additional \$570 million above the cost of living adjustment as an ongoing increase to the formula. The 2018-19 State Budget also provides \$300 million one-time Proposition 98 general fund resources for the Low-Performing Students Block Grant, which will provide resources in addition to LCFF funds to local educational agencies with students who perform at the lowest levels on the State’s academic assessments and do not generate supplemental LCFF funds or State or federal special education resources.

Certain budgeted adjustments for K-12 education set forth in the 2018-19 State Budget include the following:

- Statewide System of Support. The 2018-19 State Budget includes \$57.8 million in Proposition 98 general fund resources for county offices of education to provide technical assistance to school districts, of which \$4 million will go towards geographical regional leads to build systemwide capacity to support school district improvement.
- Multi-Tiered Systems of Support (MTSS). The 2018-19 State Budget includes \$15 million one-time Proposition 98 general fund resources to expand the State’s MTSS framework to foster positive school climate in both academic and behavioral areas.
- Community Engagement Initiative. The 2018-19 State Budget includes \$13.3 million one-time Proposition 98 general fund resources for the California Collaborative for Educational Excellence and a co-lead county office of education to help school districts build capacity for community engagement in the local control and accountability plan (“LCAP”) process.
- California Collaborative for Educational Excellence. The 2018-19 State Budget includes \$11.5 million Proposition 98 general fund resources to support the California Collaborative for Educational Excellence in its role within the statewide system of support.
- Special Education Local Plan Area (SELPA) Technical Assistance. The 2018-19 State Budget includes \$10 million Proposition 98 general fund resources for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance (specific to students with exceptional needs) within the statewide system of support.
- Strong Workforce Program. The 2018-19 State Budget includes \$164 million ongoing Proposition 98 general fund resources to establish a K-12 specific component within the Strong Workforce Program designed to encourage local educational agencies to offer high-quality career technical education programs that are aligned with needed industry skills and regional workforce development efforts occurring through the existing Strong Workforce Program.
- Career Technical Education Incentive Grant Program. The 2018-19 State Budget includes \$150 million ongoing Proposition 98 general fund resources to make permanent the Career Technical Education Incentive Grant Program.

- Inclusive Early Education Expansion Program. The 2018-19 State Budget creates the Inclusive Early Education Expansion Program, providing \$167.2 million one-time Proposition 98 general fund resources through a competitive grant program to increase the availability of inclusive early education and care for children aged zero to five years old, especially in low-income areas and in areas with relatively low access to care.

The complete 2018-19 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Proposed 2019-20 State Budget.*** The Governor released his proposed State budget for fiscal year 2019-20 (the “Proposed 2019-20 State Budget”) on January 10, 2019. The Proposed 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20. However, the Governor cautions that there are uncertainties that must be considered as the budget is revised, including the impact of the global political and economic climate, changes to federal policy, rising costs and risk of recession. The Proposed 2019-20 State Budget estimates that total resources available in fiscal year 2018-19 totaled approximately \$149.32 billion (including a prior year balance of approximately \$12.38 billion) and total expenditures in fiscal year 2018-19 totaled approximately \$144.08 billion. The Proposed 2019-20 State Budget projects total resources available for fiscal year 2019-20 of approximately \$147.86 billion, inclusive of revenues and transfers of approximately \$142.62 billion and a prior year balance of \$5.24 billion. The Proposed 2019-20 State Budget projects total expenditures of \$144.20 billion, inclusive of non-Proposition 98 expenditures of approximately \$88.90 billion and Proposition 98 expenditures of approximately \$55.30 billion. The Proposed 2019-20 State Budget proposes to allocate approximately \$1.39 billion of the general fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and \$2.28 billion of such fund balance to the State’s Special Fund for Economic Uncertainties. In addition, the Proposed 2019-20 State Budget estimates the Rainy Day Fund will have a fund balance of \$15.30 billion.

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

- Local Control Funding Formula. The Proposed 2019-20 State Budget includes an increase of \$2 billion in Proposition 98 general fund resources for the LCFF.
- CalSTRS Pension Costs. The Proposed 2019-20 State Budget includes a \$3 billion one-time payment of non-Proposition 98 general fund resources to CalSTRS to reduce long-term liabilities for local educational agencies and community colleges, of which \$700 million will go towards buying down employer contribution rates in fiscal years 2019-20 and 2020-21. The remaining \$2.3 billion will be allocated to the employers’ long-term unfunded liability.
- Statewide System of Support. The Proposed 2019-20 State Budget includes an increase of \$20.2 million of Proposition 98 general fund resources for county offices of education to provide technical assistance to school districts, consistent with the formula adopted in the 2018-19 State Budget.
- Special Education. The Proposed 2019-20 State Budget includes \$576 million of Proposition 98 general fund resources, of which \$186 million is on a one-time basis, to support expanded special education services and school readiness supports at local educational agencies with high percentages of both students with disabilities and unduplicated students who are low-income, youth in foster care, and English language learners.

- Access to Full-Day Kindergarten Programs. The Proposed 2019-20 State Budget includes an increase of \$750 million of one-time non-Proposition 98 general fund resources to increase participation in kindergarten programs by constructing new or retrofitting existing facilities for full-day kindergarten programs.
- Longitudinal Education Data. The Proposed 2019-20 State Budget includes an increase of \$10 million of one-time non-Proposition 98 general fund resources for the development of a longitudinal data system to improve coordination across educational data systems and track the impact of state investments on achieving educational goals. This system will host student information from early education providers, K-12 schools, higher education institutions, employers, other workforce entities, and health and human services agencies. Stakeholder meetings will be held to consider data reliability and ways to improve data quality at each education segment.
- Proposition 98 Certification. The Proposed 2019-20 State Budget proposes to revise the Proposition 98 certification process to eliminate the cost allocation schedule and prohibit the State from adjusting Proposition 98 funding levels for a prior fiscal year in order to protect local educational agencies from unanticipated revenue drops in past fiscal years.
- School District Average Daily Attendance. The Proposed 2019-20 State Budget includes a decrease of \$388 million of Proposition 98 general fund resources in 2018-19 for school districts as a result of a decrease in projected average daily attendance from the 2018-19 State Budget, and a decrease of \$187 million of Proposition 98 general fund resources in 2019-20 for school districts as a result of further projected decline in average daily attendance for 2019-20.
- Local Property Tax Adjustments. The Proposed 2019-20 State Budget includes a decrease of \$283 million of Proposition 98 general fund resources 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 of Proposition 98 general fund resources for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes
- Cost-of-Living Adjustments. The Proposed 2019-20 State Budget includes an increase of \$187 million of Proposition 98 general fund resources to support a 3.46% cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- CalWORKs Stages 2 and 3 Child Care. The Proposed 2019-20 State Budget includes a net increase of \$119.4 million of non-Proposition 98 general fund resources in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and Stage 3 child care are \$597 million and \$482.2 million, respectively.
- Full-Year Implementation of Prior Year State Preschool Slots. The Proposed 2019-20 State Budget includes an increase of \$26.8 million of Proposition 98 general fund resources to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through fiscal year 2018-19.
- County Offices of Education. The Proposed 2019-20 State Budget includes an increase of \$9 million of Proposition 98 general fund resources for county offices of education to reflect a 3.46% cost-of-living adjustment and average daily attendance changes applicable to the LCFF.



- Emergency Readiness, Response and Recovery Grant. The Proposed 2019-20 State Budget includes an increase of \$50 million of one-time non-Proposition 98 general fund resources to commence a comprehensive, statewide education campaign on disaster preparedness and safety.

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

***LAO Overview of Proposed 2019-20 State Budget.*** The Legislative Analyst’s Office (“LAO”), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the Proposed 2019-20 State Budget entitled “The 2019-20 Budget: Overview of the Governor’s Budget” on January 14, 2019 (the “2019-20 Proposed Budget Overview”). In the 2019-20 Proposed Budget Overview, the LAO summarizes the condition of the Proposed 2019-20 State Budget in light of uncertainties such as market volatility, rising costs and risk of recession. The LAO also highlights key features of the Proposed 2019-20 State Budget, which include prioritizing debt repayments and one-time programmatic spending and the early introduction of new policy goals.

The LAO notes that the Proposed 2019-20 State Budget is in a positive position, based in large part on the availability of significant discretionary resources in the amount of \$20.6 billion. The LAO explains that this is due to the administration’s higher revenue assumptions and lower-than-expected spending in health and human services programs. The LAO anticipates that capital gains revenues will likely be lower than the Proposed 2019-20 State Budget assumes due to the recent volatility of the financial market, including the sharp decline in stock prices at the end of 2018. However, the LAO suggests that any losses in capital gains revenues would likely be off-set by lower constitutionally required spending and reserve deposits. As a result, the LAO explains that under current conditions, the net effect on discretionary resources would be less than the full revenue decline. Although the LAO maintains a positive outlook on the Proposed 2019-20 State Budget, the LAO recognizes that the current financial market and economic conditions can change significantly and affect revenues in the May Revision of the Proposed 2019-20 State Budget.

The LAO summarizes that the Proposed 2019-20 State Budget allocates \$20.6 billion in discretionary resources among a variety of priorities, including \$9.7 billion for reducing debts and liabilities on a one-time basis, \$5.1 billion for programmatic spending on a one-time basis, \$2.7 billion for ongoing spending and \$3 billion for reserves. The LAO points out that the Proposed 2019-20 State Budget uses a significant portion of discretionary resources for debt repayment and prioritizes one-time spending for programmatic expansions. The LAO finds this allocation prudent even though the Proposed 2019-20 State Budget apportions a smaller share of resources for reserves than recent budgets. The LAO explains that this approach benefits the budget in future years and in some cases reduces ongoing spending growth.

The LAO notes that the Proposed 2019-20 State Budget apportions \$2.7 billion for ongoing spending, which will reach an estimated \$3.5 billion under full implementation as costs grow over time. The LAO explains that these expenditure levels are in line with estimates of available ongoing resources. However, the LAO cautions that these costs could grow due to various uncertainties not captured in the spending proposals, such as increased costs for CalWORKs grants in case of recession and costs for disaster mitigation, response and recovery. The LAO further notes that while the Proposed 2019-20 State Budget includes mostly one-time spending for these purposes, they are more likely to be ongoing costs.

The LAO explains that the Proposed 2019-20 State Budget establishes a number of policy goals, including developing a plan for implementing universal preschool, negotiating existing state prescription drug prices and reviewing related negotiation and procurement practices, and expanding paid family leave.

The LAO notes that these proposals are still in the process of development and, therefore, are not reflected in the administration's budget bottom line. The LAO finds that by proposing these policy goals at the beginning of the budget process, the Governor gives the State Legislature the opportunity to collaborate with the administration to shape these policies.

The 2019-20 Proposed Budget Overview is available on the LAO website at [www.lao.ca.gov](http://www.lao.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***May Revision to the 2019-20 Proposed State Budget.*** The Governor released the May Revision to the proposed fiscal year 2019-20 State budget (the "2019-20 May Revision") on May 9, 2019. The 2019-20 May Revision proposes a balanced budget for fiscal year 2019-20. The 2019-20 May Revision projects an increase of \$3.2 billion in short-term general fund revenues as compared to the Proposed 2019-20 State Budget. However, most of the increased revenues are constitutionally obligated to reserves, debt repayments and schools. Therefore, the budget surplus remains relatively unchanged. The 2019-20 May Revision estimates that total resources available in fiscal year 2018-19 will be approximately \$149.47 billion (including revenues and transfers of \$138.05 billion and a prior year balance of \$11.42 billion) and total expenditures in fiscal year 2018-19 will be approximately \$143.24 billion. The 2019-20 May Revision projects total resources available for fiscal year 2019-20 of approximately \$150.06 billion, inclusive of revenues and transfers of approximately \$143.84 billion and a prior year balance of approximately \$6.22 billion. The 2019-20 May Revision projects total expenditures of approximately \$147.03 billion, inclusive of non-Proposition 98 expenditures of \$91.13 billion and Proposition 98 expenditures of \$55.90 billion. The 2019-20 May Revision proposes to allocate approximately \$1.39 billion of the State general fund's projected fund balance to the Reserve for Liquidation of Encumbrances and approximately \$1.65 billion of such fund balance to the State's special fund for economic uncertainties. In addition, the 2019-20 May Revision estimates that the State's Proposition 2 rainy day fund (the "Rainy Day Fund") will have a fund balance of approximately \$16.52 billion.

The 2019-20 May Revision assumes slow economic expansion and a balanced budget through fiscal year 2019-20, although its forecasts are limited by growing uncertainty related to the global political and economic climate, federal policies, rising costs and the duration of the current economic expansion. The 2019-20 May Revision projects that the Rainy Day Fund will reach its maximum of 10% of general fund revenues in fiscal year 2020-21. By the end of fiscal year 2022-23, the 2019-20 May Revision projects that the Rainy Day Fund balance will have a balance of \$18.7 billion.

The 2019-20 May Revision includes total funding of \$101.8 billion for all K-12 education programs, including \$58.9 billion from the general fund and \$42.9 billion from other funds.

Certain adjustments and budgetary proposals for K-12 education set forth in the 2019-20 May Revision include the following:

- **Proposition 98 Minimum Guarantee.** The 2019-20 May Revision projects increased Proposition 98 funding by \$78.4 million in fiscal year 2017-18, \$278.8 million in fiscal year 2018-19 and \$389.3 million in fiscal year 2019-20, due to increase in general fund revenues, an increase in the minimum guarantee funding level in fiscal year 2017-18 and a slightly slower decline in ADA than projected in the Proposed 2019-20 State Budget.
- **Public School System Stabilization Account.** For the first time, the 2019-20 May Revision projects that a deposit is required to the Public School System Stabilization Account in the amount of \$389.3 million in Proposition 98 resources.

- Special Education. The 2019-20 May Revision proposes to allocate \$696.2 million in ongoing Proposition 98 general fund resources to special education, \$119.2 million more than set forth in the Proposed 2019-20 State Budget, to increase coordination between local general education and special education programs, and for program governance and accountability for special education student outcomes.
- Retaining Well-Prepared Educators. The 2019-20 May Revision includes \$89.8 million in one-time non-Proposition 98 general fund resources for loan repayments of newly credentialed teachers to work in high-need schools. The 2019-20 May Revision also includes \$44.8 million in one-time non-Proposition 98 general fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, and \$13.9 million in ongoing federal funds for professional learning opportunities for public school administrators supporting diverse student populations in State public schools.
- Access to Computer Science Education. The 2019-20 May Revision includes \$15 million in one-time Proposition 98 general fund resources for broadband infrastructure and \$1 million in one-time non-Proposition 98 general fund resources for the State Board of Education to establish a State Computer Science Coordinator.
- CalSTRS Employer Contribution Rate. The 2019-20 May Revision includes \$150 million in one-time non-Proposition 98 general fund resources to reduce the employer contribution rate to 16.7% in fiscal year 2019-20.
- Local Control Funding Formula Adjustments. The 2019-20 May Revision proposes an increase of \$70 million in Proposition 98 general fund resources in fiscal year 2018-19 and a decrease of \$63.9 million in Proposition 98 general fund resources in fiscal year 2019-20 for school districts, charter schools and county offices of education to reflect changes in ADA and cost-of-living in fiscal year 2019-20 that affect the LCFF calculation.
- Classified School Employees Summer Assistance Program. The 2019-20 May Revision includes an increase of \$36 million in one-time Proposition 98 general fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Local Property Tax Adjustments. The 2019-20 May Revision proposes an increase of \$146.6 million of Proposition 98 general fund resources in fiscal year 2018-19 and \$142.1 million in fiscal year 2019-20 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in these years.
- Wildfire-Related Cost Adjustments. The 2019-20 May Revision proposes an increase of \$2 million in one-time Proposition 98 general fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires in 2017 and 2018. The 2019-20 May Revision also proposes an increase of \$727,000 in one-time Proposition 98 general fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses.
- Categorical Program Cost-of-Living Adjustments. The 2019-20 May Revision proposes to decrease the Proposition 98 general fund by \$7.4 million for selected categorical programs during

fiscal year 2019-20. Such decrease reflects a change in the cost-of-living set forth in the Proposed 2019-20 State Budget of 3.46% to 3.26% in the 2019-20 May Revision.

- **Categorical Program Growth.** The 2019-20 May Revision proposes to increase the Proposition 98 general fund by \$7.6 million for selected categorical programs, based on updated estimates of ADA growth.

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

**Changes in State Budget.** The final fiscal year 2019-20 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2019-20 State budget from the Proposed 2019-20 State Budget or the 2019-20 May Revision. Additionally, the District cannot predict the impact that the final fiscal year 2019-20 State budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2019-20 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

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

**Prohibitions on Diverting Local Revenues for State Purposes.** Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and community college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of an initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

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

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

***Allocation of State Funding to School Districts; Local Control Funding Formula.*** Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State’s contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as “basic aid districts,” which are now referred to as “community funded districts.” School districts that received some equalization aid were commonly referred to as “revenue limit districts,” which are now referred to as “LCFF districts.” The District is an LCFF district.

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

- A Base Grant for each local education agency (“LEA”). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2018-19, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,235 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,571 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,796 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,269 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades

9-12. Further, this amount also includes the higher cost-of-living adjustment of 3.70% authorized by the 2018-19 State Budget, which is known as “super COLA.”

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a LEA’s Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.
- An Economic Recovery Target (the “ERT”) that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation in fiscal year 2018-419, LEAs now receive the greater of the Base Grant or the ERT.

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

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

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

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

**Attendance and LCFF.** The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”), and targeted Base Grant per unit of A.D.A. for fiscal years 2013-14 through 2018-19, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education and students enrolled with county office of education programs for which the District receives funding.

**SANTA MARIA-BONITA SCHOOL DISTRICT  
(Santa Barbara and San Luis Obispo Counties, California)  
Average Daily Attendance, Enrollment and Targeted Base Grant  
Fiscal Years 2013-14 through 2018-19**

Fiscal Year		A.D.A./Base Grant			Enrollment <sup>(8)</sup>		
		K-3	4-6	7-8	Total A.D.A.	Total Enrollment	Percent of EL/LI Students
2013-14	A.D.A. <sup>(1)</sup> :	7,501	4,790	2,836	15,127	15,591	97.74%
	Targeted Base Grant <sup>(2)</sup> :	\$7,675	\$7,056	\$7,266	--	--	--
2014-15	A.D.A. <sup>(1)</sup> :	7,615	5,120	2,803	15,539	16,076	92.19%
	Targeted Base Grant <sup>(2)(3)</sup> :	\$7,740	\$7,116	\$7,328	--	--	--
2015-16	A.D.A. <sup>(1)</sup> :	7,739.55	5,388.11	2,947.46	16,075.12	16,584	92.05%
	Targeted Base Grant <sup>(2)(4)</sup> :	\$7,083	\$7,189	\$7,403	--	--	--
2016-17	A.D.A. <sup>(1)</sup> :	7,714.56	5,422.10	3,213.03	16,349.69	16,868	91.70%
	Targeted Base Grant <sup>(2)(5)</sup> :	\$7,116	\$7,223	\$7,438	--	--	--
2017-18	A.D.A. <sup>(1)</sup> :	7,724.32	5,443.77	3,439.20	16,607.29	17,122	92.07%
	Targeted Base Grant <sup>(2)(6)</sup> :	\$7,941	\$7,301	\$7,518	--	--	--
2018-19	A.D.A. <sup>(1)</sup> :	7,611.73	5,271.44	3,467.62	16,350.79	16,940	92.23%
	Targeted Base Grant <sup>(2)(7)</sup> :	\$7,459	\$7,571	\$7,796	--	--	--

<sup>(1)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year.

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

<sup>(3)</sup> Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

<sup>(4)</sup> Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

<sup>(5)</sup> Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

<sup>(6)</sup> Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

<sup>(7)</sup> Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

<sup>(8)</sup> Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2017-18 school year. 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 fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students 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 was based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Santa Maria-Bonita School District.

The District received approximately \$170.13 million in aggregate revenues reported under LCFF sources in fiscal year 2017-18, and has projected to receive approximately \$183.86 million in aggregate revenues under the LCFF in fiscal year 2018-19 (or approximately 82.10% of its general fund revenues in

fiscal year 2018-19). Such amount includes supplemental grants and concentration grants projected to be approximately \$24.27 million and \$24.49 million, respectively, in fiscal year 2018-19.

### **Local Sources of Education Funding**

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some State equalization aid were commonly referred to as "revenue limit districts." The District was a revenue limit district and is now referred to as an LCFF district.

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

Local property tax revenues account for approximately 19.41% of the District's aggregate revenues reported under LCFF sources and are projected to be approximately \$35.68 million, or 15.93% of total general fund revenues in fiscal year 2018-19.

For information about the property taxation system in California and the District's property tax base, see "DISTRICT HISTORY, OPERATIONS AND FINANCIAL INFORMATION – Local Property Taxation – *Assessed Valuation of Property Within District.*"

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

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

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

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new



students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

### **Other District Revenues**

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 6.82% (or approximately \$15.28 million) of the District's general fund projected revenues for fiscal year 2018-19.

**Other State Revenues.** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 8.01% (or approximately \$17.93 million) of the District's general fund projected revenues for fiscal year 2018-19.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is projected at approximately \$3.49 million for fiscal year 2018-19.

**Other Local Revenues.** In addition to ad valorem property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 3.07% (or approximately \$6.88 million) of the District's general fund projected revenues for fiscal year 2018-19.

### **Local Property Taxation**

Taxable property located in the District has a 2018-19 assessed value of \$8,804,838,406. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described under the heading, "*State-Assessed Property*" below.

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

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

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

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***Assessed Valuation of Property Within District.*** The following table sets forth the assessed valuations of the various classes of property in the District for fiscal years 2005-06 through 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT  
(Santa Barbara and San Luis Obispo Counties, California)  
Assessed Valuations  
Fiscal Years 2005-06 through 2018-19**

Santa Barbara County Portion

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Valuation</u>
2005-06	\$5,161,814,897	\$2,912,979	\$370,283,127	\$5,535,011,003
2006-07	5,904,564,195	3,944,233	375,024,460	6,283,532,888
2007-08	6,322,495,676	2,947,280	401,756,576	6,727,199,532
2008-09	6,224,610,488	2,577,010	420,711,949	6,647,899,447
2009-10	5,888,416,561	2,577,010	443,776,398	6,334,769,969
2010-11	5,815,896,166	2,577,010	454,578,718	6,273,051,894
2011-12	5,893,389,189	0	459,437,142	6,352,826,331
2012-13	5,957,735,743	0	480,782,369	6,438,518,112
2013-14	6,091,552,004	0	471,702,318	6,563,254,322
2014-15	6,396,112,810	0	485,979,554	6,882,092,364
2015-16	6,751,995,861	0	544,639,515	7,296,635,376
2016-17	7,112,748,449	0	594,039,662	7,706,788,111
2017-18	7,641,261,795	0	633,682,072	8,274,943,867
2018-19	8,152,192,169	0	652,269,144	8,804,461,313

San Luis Obispo County Portion

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Valuation</u>
2005-06	\$223,389	\$0	\$0	\$223,389
2006-07	227,683	0	0	227,683
2007-08	238,500	0	0	238,500
2008-09	415,768	0	0	415,768
2009-10	387,097	0	0	387,097
2010-11	386,764	0	0	386,764
2011-12	387,818	0	0	387,818
2012-13	390,640	0	0	390,640
2013-14	343,718	0	0	343,718
2014-15	344,531	0	0	344,531
2015-16	348,129	0	0	348,129
2016-17	350,930	0	0	350,930
2017-18	373,978	0	0	373,978
2018-19	377,093	0	0	377,093

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, drought, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also “*–Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below. In recent years, there have been fires in both Santa Barbara County and San Luis Obispo County

and flooding resulting in mudslides in Santa Barbara County. There was no damage or destruction caused to property within the District's boundaries as a result of such disasters and no property of the District's was damaged or destroyed as a result of such disasters.

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

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

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

See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

*Assessed Valuation by Jurisdiction.* The following table gives a distribution of taxable real property located in the District by jurisdiction.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**2018-19 Assessed Valuation by Jurisdiction**

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Santa Maria	\$8,306,177,580	94.34%	\$ 8,872,067,311	93.62%
Unincorporated Santa Barbara County	498,283,733	5.66	37,816,710,166	1.32
Unincorporated San Luis Obispo County	377,093	0.00	25,261,656,169	0.00
<b>Total District</b>	<b>\$8,804,838,406</b>	<b>100.00%</b>		
<b><u>Summary by County:</u></b>				
Total Santa Barbara County	\$8,804,461,313	100.00%	\$82,868,059,992	10.62%
Total San Luis Obispo County	377,093	0.00	53,669,914,101	0.00
<b>Total District</b>	<b>\$8,804,838,406</b>	<b>100.00%</b>		

Source: California Municipal Statistics, Inc.

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**Assessed Valuation by Land Use.** The following table sets forth a distribution of taxable property located in the District on the 2018-19 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Assessed Valuation and Parcels by Land Use**  
**Fiscal Year 2018-19**

	Assessed Valuation		No. of Parcels	
	2018-19 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 272,290,042	3.34%	258	1.08%
Commercial/Office	1,362,398,561	16.71	1,028	4.31
Vacant Commercial	87,629,594	1.07	132	0.55
Industrial	871,324,447	10.69	489	2.05
Vacant Industrial	45,460,916	0.56	154	0.65
Recreational	12,109,079	0.15	46	0.19
Government/Social/Institutional	98,897,555	1.21	142	0.60
Miscellaneous	17,850,435	0.22	255	1.07
Subtotal Non-Residential	\$2,767,960,629	33.95%	2,504	10.50%
<b>Residential:</b>				
Single Family Residence	\$4,152,850,653	50.94%	16,415	68.86%
Condominium/Townhouse	276,540,651	3.39	1,496	6.28
Mobile Home	42,109,222	0.52	1,835	7.70
Mobile Home Park	38,831,989	0.48	12	0.05
Hotel/Motel	118,208,493	1.45	42	0.18
2-4 Residential Units	238,787,779	2.93	850	3.57
5+ Residential Units/Apartments	489,150,962	6.00	269	1.13
Vacant Residential	28,128,884	0.35	415	1.74
Subtotal Residential	\$5,384,608,633	66.05%	21,334	89.50%
<b>TOTAL</b>	<b>\$8,152,569,262</b>	<b>100.00%</b>	<b>23,838</b>	<b>100.00%</b>

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

**Assessed Valuation of Single Family Homes.** The following table sets forth the assessed valuation of single-family homes located in the District for fiscal year 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT  
(Santa Barbara and San Luis Obispo Counties, California)  
Per Parcel 2018-19 Assessed Valuation of Single Family Homes**

	Number of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	16,415	\$4,152,850,653	\$252,991	\$246,714

2018-19 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	33	0.201%	0.201%	\$ 526,762	0.013%	0.013%
\$25,000 - \$49,999	358	2.181	2.382	15,629,724	0.376	0.389
\$50,000 - \$74,999	918	5.592	7.974	55,252,717	1.330	1.720
\$75,000 - \$99,999	408	2.486	10.460	35,323,624	0.851	2.570
\$100,000 - \$124,999	508	3.095	13.555	57,851,857	1.393	3.963
\$125,000 - \$149,999	820	4.995	18.550	113,116,155	2.724	6.687
\$150,000 - \$174,999	1,244	7.578	26.129	202,273,435	4.871	11.558
\$175,000 - \$199,999	1,453	8.852	34.980	272,048,780	6.551	18.109
\$200,000 - \$224,999	1,323	8.060	43.040	280,643,910	6.758	24.866
\$225,000 - \$249,999	1,333	8.121	51.161	316,347,838	7.618	32.484
\$250,000 - \$274,999	1,267	7.719	58.879	332,723,030	8.012	40.496
\$275,000 - \$299,999	1,225	7.463	66.342	352,330,509	8.484	48.980
\$300,000 - \$324,999	1,109	6.756	73.098	346,409,501	8.341	57.322
\$325,000 - \$349,999	1,057	6.439	79.537	356,387,675	8.582	65.903
\$350,000 - \$374,999	927	5.647	85.184	335,218,440	8.072	73.975
\$375,000 - \$399,999	689	4.197	89.382	266,489,755	6.417	80.392
\$400,000 - \$424,999	604	3.680	93.061	248,480,260	5.983	86.376
\$425,000 - \$449,999	362	2.205	95.267	158,103,314	3.807	90.183
\$450,000 - \$474,999	260	1.584	96.850	119,866,322	2.886	93.069
\$475,000 - \$499,999	188	1.145	97.996	91,389,332	2.201	95.270
\$500,000 and greater	329	2.004	100.000	196,437,713	4.730	100.000
Total	16,415	100.000%		\$4,152,850,653	100.000%	

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

**Largest Taxpayers in District.** The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2018-19 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are shown below.

**SANTA MARIA-BONITA SCHOOL DISTRICT  
(Santa Barbara and San Luis Obispo Counties, California)  
Largest 2018-19 Local Secured Taxpayers**

Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total <sup>(1)</sup>
1. Windset Farms California Inc.	Nurseries/Greenhouses	\$234,951,645	2.88%
2. Okonite Company Inc.	Light Industrial	107,303,019	1.32
3. KW Bradley Square LLC	Apartments	50,056,505	0.61
4. Santa Maria Land Partners LLC	Apartments	47,287,165	0.58
5. HT Partners LP	Apartments	42,441,982	0.52
6. Dario L. Pini	Apartments	42,003,245	0.52
7. 333 East Enos Drive Owner LLC	Apartments	37,786,000	0.46
8. Costco Wholesale Corporation	Commercial	36,504,800	0.45
9. MGP 50 LLC	Assisted Living Facility	36,235,564	0.44
10. Siena at Westgate LP	Apartments	32,248,408	0.40
11. Bettervia Investments LLC	Food Processing	30,565,527	0.37
12. Broadway Pavilion Station LLC	Shopping Center	29,828,120	0.37
13. ERGS XIV REO Owner LLC	Shopping Center	29,103,942	0.36
14. Lineage Master RE 3 LLC	Food Processing	25,806,674	0.32
15. The Pictsweet Company	Food Processing	24,196,250	0.30
16. OSR/PIM Cooler Partners LLC	Agricultural	22,201,024	0.27
17. iStorage PO LLC	Industrial	21,834,400	0.27
18. Yipsm Owner LLC	Hotel	21,384,640	0.26
19. Lyon Santa Maria LLC	Apartments	21,089,512	0.26
20. Wal-Mart Real Estate Business Trust	Commercial	19,900,716	0.24
		\$912,729,138	11.20%

<sup>(1)</sup> 2018-19 Local secured assessed valuation: \$8,152,569,262  
Source: California Municipal Statistics, Inc.

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



**Tax Rates.** The following table sets forth ad valorem property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 3-000). This Tax Rate Area comprises approximately 60.11% of the total assessed value of the District for fiscal year 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Typical Tax Rate per \$100 Assessed Valuation (TRA 3-000)**  
**Fiscal Years 2014-15 through 2018-19**

	2014-15	2015-16	2016-17	2017-18	2018-19
General Tax Rate	\$1.000000	\$1.000000	\$1.000000	\$1.000000	\$1.000000
Santa Maria Joint Union High School District Bond	.045220	.049490	.049430	.078640	.074490
Santa Maria-Bonita School District	.000000	.025750	.025750	.025750	.020600
Allan Hancock Joint Community College District	.025000	.025000	.025000	.023750	.022560
<b>Total Tax Rate</b>	<b>\$1.070220</b>	<b>\$1.100240</b>	<b>1.100180</b>	<b>1.128140</b>	<b>1.117650</b>

Source: California Municipal Statistics, Inc.

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

The county assessor prepares the tax bills for property in the County subject to *ad valorem* property taxes. The county treasurer-tax collector collects the property taxes. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and, with respect to the second installment payment deadline, a \$20 cost is added to unpaid installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer and tax collector.

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

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

The Counties do not provide information with respect to the real property tax charges and delinquencies for the general 1% property tax levy on property within the District. See “– Teeter Plan” below. The following table sets forth real property tax charges and corresponding delinquencies for the District’s general obligation bond debt service levy on the property located within the District for fiscal years 2015-16 through 2017-18. Fiscal year 2015-16 was the first year of the District’s general obligation bond debt service levy; as a result there is no information available for prior fiscal years.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Secured Tax Charges and Delinquencies**  
**Fiscal Years 2015-16 through 2017-18**

	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent June 30	% Delinquent June 30
2015-16	\$1,705,731.80	\$ 4,399.86	0.26%
2016-17	1,810,975.18	11,335.79	0.63
2017-18	1,947,995.63	36,872.30	1.89

<sup>(1)</sup> General obligation bond debt service levy only. There was no debt service in prior fiscal years.  
Source: California Municipal Statistics, Inc.

**Teeter Plan.** Santa Barbara County and San Luis Obispo County have adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in a County, including school districts, receives the full amount of uncollected taxes levied on the secured roll credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the Counties each receive and retain delinquent payments, penalties and interest as collected, that would have been due the local agency. Santa Barbara County and San Luis Obispo County apply the Teeter Plan to taxes levied for repayment of general obligation bonds.

The Teeter Plan is to remain in effect unless the board of supervisors of a county orders its discontinuance or unless, prior to the commencement of any fiscal year of a county (which commences on July 1), the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in such county. The board of supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in such 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.

**Significant Accounting Policies and Audited Financial Reports**

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education’s California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District’s audited financial statements for the fiscal year ended June 30, 2018, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District’s independent auditor, Vavrinek, Trine, Day & Co. LLP,

Certified Public Accountants & Consultants, Fresno, California, for fiscal years 2013-14 through 2017-18. Vavrinek, Trine, Day & Co. LLP, Certified Public Accountants & Consultants has not been requested to consent to the use or to the inclusion of its reports in this Official Statement, and it has neither audited nor reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The following table sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2013-14 through 2017-18.

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**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2013-14 through 2017-18**

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
<b>REVENUES</b>					
LCFF sources	\$102,155,279	\$121,916,290	\$148,494,121	\$162,297,229	\$170,125,108
Federal sources	10,869,218	13,305,453	14,183,632	14,027,445	14,172,542
Other State sources	15,926,117	15,061,594	27,091,496	21,732,691	15,790,408
Other local sources	1,305,898	1,147,292	1,338,419	1,641,719	7,199,621
<b>Total Revenues</b>	<u>130,256,512</u>	<u>151,430,629</u>	<u>191,107,668</u>	<u>199,699,084</u>	<u>207,287,679</u>
<b>EXPENDITURES</b>					
Current					
Instruction	80,956,876	98,065,886	111,590,158	126,752,369	127,006,726
Instruction related activities:					
Supervision of instruction	5,389,772	6,921,046	8,173,838	9,349,344	10,733,723
Instructional library, media, and technology	1,611,633	2,405,439	3,301,139	2,895,715	3,113,048
School site administration	7,657,689	8,829,182	10,376,978	10,500,526	11,120,857
Pupil services:					
Home-to-school transportation	2,650,782	2,949,156	3,081,992	3,459,636	3,734,175
Food services	2,152	89,377	173	786	4,185
All other pupil services	6,325,469	8,254,213	9,288,496	10,757,681	12,299,493
General administration:					
Data processing	2,038,594	773,547	728,252	777,245	1,072,076
All other general administration	4,306,516	5,051,780	5,891,624	6,119,456	5,957,539
Plant services	10,677,742	12,369,948	13,737,084	14,971,191	17,684,589
Facility acquisition and construction	489,252	42,408	-	262,926	-
Ancillary services	108,296	127,704	93,795	113,371	112,622
Community services	31,941	40,875	30,786	26,951	22,228
Other outgo	66,759	-	1,719	161	8,573,644
Debt service					
Principal	63,000	63,000	63,000	63,000	63,000
Interest and other	-	-	-	-	-
<b>Total Expenditures</b>	<u>122,376,473</u>	<u>145,983,561</u>	<u>166,359,034</u>	<u>186,050,358</u>	<u>201,497,905</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>7,880,039</u>	<u>5,447,068</u>	<u>24,748,634</u>	<u>13,648,726</u>	<u>5,789,774</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	-	-	-	-	-
Transfers out <sup>(1)</sup>	(4,201,526)	(6,422,718)	(19,362,240)	(5,413,915)	(5,353,209)
<b>Net Financing Sources (Uses)</b>	<u>(4,201,526)</u>	<u>(6,422,718)</u>	<u>(19,362,240)</u>	<u>(5,413,915)</u>	<u>(5,353,209)</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,678,513	(975,650)	5,386,394	8,234,811	436,565
<b>Fund Balance – Beginning</b>	<u>32,926,796</u>	<u>36,605,310</u>	<u>35,629,660</u>	<u>41,016,054</u>	<u>49,250,865</u>
<b>Fund Balance – Ending</b>	<u>\$ 36,605,309</u>	<u>\$ 35,629,660</u>	<u>\$ 41,016,054</u>	<u>\$ 49,250,865</u>	<u>\$ 49,687,430</u>

<sup>(1)</sup> The increase in transfers out for fiscal year 2015-16 are the result of various student housing projects, including portable classrooms, physical education facilities, and building remediation, in addition to the regularly scheduled rental payments evidenced by the Series 2013 Certificates and Series 2013 Refunding Lease (both as defined herein).

Source: Santa Maria-Bonita School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

The following table sets forth the general fund balance sheet of the District for fiscal years 2013-14 through 2017-18.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2013-14 through 2017-18**

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
<b>ASSETS</b>					
Deposits and investments	\$19,951,051	\$33,340,891	\$36,662,377	\$49,389,703	\$50,290,910
Receivables	23,770,013	13,153,220	15,073,015	20,555,844	16,078,430
Due from other funds	401,966	550,130	693,065	516,638	648,330
Prepaid expenditures	636,977	624,688	626,043	737,913	230,898
Stores inventories	61,343	64,799	70,931	55,755	64,165
<b>Total Assets</b>	<b>\$44,821,350</b>	<b>\$47,733,728</b>	<b>\$53,125,431</b>	<b>\$71,255,853</b>	<b>\$67,312,733</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 7,758,509	\$11,385,384	\$11,431,401	\$20,135,059	\$17,284,498
Due to other funds	457,207	658,715	677,457	1,824,545	335,780
Deferred/Unearned revenue	325	59,969	519	45,384	5,025
<b>Total Liabilities</b>	<b>8,216,041</b>	<b>12,104,068</b>	<b>12,109,377</b>	<b>22,004,988</b>	<b>17,625,303</b>
<b>FUND BALANCES:</b>					
Nonspendable	708,320	699,487	706,974	803,667	303,433
Restricted	4,700,788	2,359,822	7,145,439	8,400,132	7,696,788
Committed	-	-	-	-	-
Assigned	4,497,789	4,908,672	10,608,188	34,302,066	35,479,209
Unassigned	26,698,412	27,661,679	22,555,453	5,745,000	6,208,000
<b>Total Fund Balance</b>	<b>36,605,309</b>	<b>35,629,660</b>	<b>41,016,054</b>	<b>49,250,865</b>	<b>49,687,430</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$44,821,350</b>	<b>\$47,733,728</b>	<b>\$53,125,431</b>	<b>\$71,255,853</b>	<b>\$67,312,733</b>

Source: Santa Maria-Bonita School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

### **District Budget Process and County Review**

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year written recommendations regarding revisions of the budget and the reasons for the

recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

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

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

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

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

June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

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

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from ad valorem property taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

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

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The following table sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2018-19, unaudited actuals for fiscal years 2016-17 and 2017-18, and second interim report for fiscal year 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**General Fund Budgets for Fiscal Years 2016-17 through 2018-19,**  
**Unaudited Actuals for Fiscal Years 2016-17 and 2017-18**  
**and Second Interim Report for Fiscal Year 2018-19**

	2016-17 Original Adopted Budget	2016-17 Unaudited Actuals <sup>(1)</sup>	2017-18 Original Adopted Budget	2017-18 Unaudited Actuals <sup>(1)</sup>	2018-19 Original Adopted Budget	2018-19 Second Interim Report <sup>(2)</sup>
<b>REVENUES</b>						
LCFF Sources	\$159,371,792.00	\$162,297,227.75	\$157,003,589.00	\$170,125,109.56	\$174,621,246.00	\$183,863,632.00
Federal Revenue	13,316,181.00	14,027,444.44	13,339,199.00	14,172,541.35	13,529,587.00	15,281,393.00
Other State Revenue	14,237,229.00	21,732,690.05	15,693,308.00	15,790,407.89	18,911,998.00	17,934,533.00
Other Local Revenue	691,577.00	1,632,182.47	1,506,833.00	7,184,125.32	6,348,162.00	6,883,443.00
<b>TOTAL REVENUES</b>	<b>187,616,779.00</b>	<b>199,689,544.71</b>	<b>187,542,929.00</b>	<b>207,272,184.12</b>	<b>213,410,993.00</b>	<b>223,963,001.00</b>
<b>EXPENDITURES</b>						
Certificated Salaries	81,911,073.00	77,294,718.60	83,786,139.00	84,151,685.24	86,807,865.00	90,662,994.00
Classified Salaries	23,387,379.00	23,136,980.51	26,496,092.00	25,532,348.96	27,686,395.00	28,895,716.00
Employee Benefits	36,188,948.00	40,149,093.09	42,678,064.00	44,221,931.76	47,501,037.00	50,497,066.00
Books and Supplies	12,634,857.00	16,782,843.84	13,713,795.00	12,318,019.37	14,717,190.00	12,737,804.00
Services, Other Operating Expenses	30,031,436.00	28,519,831.33	32,045,569.00	25,320,505.42	27,055,385.00	36,887,407.00
Capital Outlay	175,846.00	530,392.90	179,245.00	1,796,903.66	1,733,430.00	1,797,783.00
Other Outgo (excluding Direct Support/Indirect Costs)	63,000.00	63,161.00	63,000.00	8,636,644.00	8,820,439.00	9,269,108.00
Transfers of Direct Support/Indirect Costs	(425,429.00)	(426,663.55)	(495,182.00)	(480,133.89)	(499,606.00)	(523,549.00)
<b>TOTAL EXPENDITURES</b>	<b>183,967,110.00</b>	<b>186,050,357.72</b>	<b>198,466,722.00</b>	<b>201,497,904.52</b>	<b>213,822,135.00</b>	<b>230,224,329.00</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,649,669.00</b>	<b>13,639,186.99</b>	<b>(10,923,793.00)</b>	<b>5,774,279.60</b>	<b>(411,142.00)</b>	<b>(6,261,328.00)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Inter-fund Transfers In	-	-	-	-	-	-
Inter-fund Transfers Out	(4,122,813.00)	(5,413,915.39)	(5,713,752.00)	(5,353,209.47)	(3,898,351.00)	(3,758,866.00)
Other Sources (Uses)	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
<b>TOTAL, OTHER FINANCING SOURCES (USES)</b>	<b>(4,122,813.00)</b>	<b>(5,413,915.39)</b>	<b>(5,713,752.00)</b>	<b>(5,353,209.47)</b>	<b>(3,898,351.00)</b>	<b>(3,758,866.00)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(473,144.00)</b>	<b>8,225,271.60</b>	<b>(16,637,545.00)</b>	<b>421,070.13</b>	<b>(4,309,493.00)</b>	<b>(10,020,194.00)</b>
<b>BEGINNING BALANCE, as of July 1</b>	<b>29,704,444.00</b>	<b>39,742,384.70</b>	<b>34,337,213.00</b>	<b>47,967,656.30</b>	<b>37,171,682.00</b>	<b>48,388,729.00</b>
<b>Audit Adjustments As of July 1 – Audited</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Restatements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjusted Beginning Balance</b>	<b>29,704,444.00</b>	<b>39,742,384.70</b>	<b>34,337,213.00</b>	<b>47,967,656.30</b>	<b>37,171,682.00</b>	<b>48,388,729.00</b>
<b>ENDING BALANCE</b>	<b>\$ 29,231,300.00</b>	<b>\$ 47,967,656.30</b>	<b>\$ 17,699,668.00</b>	<b>\$ 48,388,726.43</b>	<b>\$ 32,862,189.00</b>	<b>\$38,368,535.00</b>
<b>Total Unrestricted Ending Balance</b>	<b>\$29,230,928.00</b>	<b>\$39,567,524.63</b>	<b>\$14,519,087.00</b>	<b>\$40,691,937.93</b>	<b>\$29,232,329.00</b>	<b>\$33,922,465.00</b>
<b>Total Restricted Ending Balance</b>	<b>\$372.00</b>	<b>\$8,400,131.67</b>	<b>\$3,180,581.00</b>	<b>\$7,696,788.50</b>	<b>\$3,629,860.00</b>	<b>\$4,446,070.00</b>

<sup>(1)</sup> The unaudited actuals for fiscal years 2016-17 and 2017-18 differ from the District's audited financial statements for such fiscal years because the District's unaudited actuals do not consolidate Fund 17, special reserve for non-capital fund, with the general fund; however, in accordance with GASB Statement No. 54, the District's audited financial statements consolidate Fund 17 with the general fund.

<sup>(2)</sup> Figures are projections.

Source: Santa Maria-Bonita School District adopted general fund budgets for fiscal years 2016-17 through 2018-19; unaudited actuals for fiscal years 2016-17 and 2017-18; and second interim report for fiscal year 2018-19.



## District Debt Structure

**Long-Term Debt Summary.** A schedule of changes in the District’s long-term obligations for the year ended June 30, 2018, consisted of the following:

Long-Term Debt	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General Obligation Bonds <sup>(1)</sup>					
Series 2015 Bonds	\$30,000,000	\$ -	\$ -	\$30,000,000	\$ -
Premium	1,886,153	-	67,363	1,818,790	-
Certificates of Participation <sup>(2)</sup>					
Series 2013 Certificates	21,815,000	-	1,095,000	20,720,000	1,115,000
Series 2013 Refunding Lease (the “Prior Lease”)	15,175,301	-	1,172,387	14,002,914	1,209,968
State preschool revolving loans	126,000	-	63,000	63,000	63,000
Early retirement incentives					
PARS	624,093	-	624,093	-	-
ERIP	282,083	535,000	184,583	632,500	84,000
Compensated absences – net	79,124	19,178	-	98,302	-
Other postemployment benefits	16,894,520	239,218	-	17,133,738	-
<b>Total</b>	<b>\$86,882,274</b>	<b>\$793,396</b>	<b>\$3,206,426</b>	<b>\$84,469,244</b>	<b>\$2,471,968</b>

<sup>(1)</sup> Does not include the Series 2019 Bonds (defined below).

<sup>(2)</sup> Excludes the Certificates; includes the Prior Lease to be prepaid.

Source: Santa Maria-Bonita School District Audited Financial Report for fiscal year 2017-18.

**General Obligation Bonds.** At an election held on November 4, 2014, the District received authorization under Measure T to issue bonds of the District in an aggregate principal amount not to exceed \$45,000,000 to repair and replace leaky roofs, plumbing, electrical systems, lighting systems and ventilation, to upgrade science labs and education technology, to improve safety and security, to construct school facilities to relieve overcrowding, and to acquire, construct, equip and renovate sites and facilities (collectively, the “Authorization”). Measure T required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 62.09%. On April 22, 2015, the District issued its General Obligation Bonds, Election of 2014, Series 2015, in the aggregate principal amount of \$30,000,000 (the “Series 2015 Bonds”) as the District’s first series of bonds to be issued under the Authorization. On April 25, 2019, the District issued its General Obligation Bonds, Election of 2014, Series 2019, in the aggregate principal amount of \$15,000,000 (the “Series 2019 Bonds”) as the District’s second and final series of bonds to be issued under the Authorization. The Series 2015 Bonds and the Series 2019 Bonds were issued to finance specific construction, repair and improvement projects approved by the voters of the District under the Authorization.

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District, assuming no early redemptions.

Year Ending August 1,	Series 2015 Bonds	Series 2019 Bonds	Aggregate Debt Service
2019	\$ 1,282,656.26	\$ 164,893.33	\$ 1,447,549.59
2020	1,282,656.26	1,193,350.00	2,476,006.26
2021	1,327,656.26	1,280,350.00	2,608,006.26
2022	1,381,756.26	742,950.00	2,124,706.26
2023	1,432,756.26	730,950.00	2,163,706.26
2024	1,490,006.26	749,150.00	2,239,156.26
2025	1,554,006.26	771,350.00	2,325,356.26
2026	1,614,256.26	792,350.00	2,406,606.26
2027	1,680,756.26	812,150.00	2,492,906.26
2028	1,748,006.26	837,900.00	2,585,906.26
2029	1,815,756.26	861,650.00	2,677,406.26
2030	1,888,756.26	883,400.00	2,772,156.26
2031	1,961,506.26	913,150.00	2,874,656.26
2032	2,043,756.26	935,400.00	2,979,156.26
2033	2,124,756.26	960,400.00	3,085,156.26
2034	2,209,256.26	988,600.00	3,197,856.26
2035	2,296,756.26	1,014,800.00	3,311,556.26
2036	2,389,506.26	1,044,000.00	3,433,506.26
2037	2,482,506.26	1,071,000.00	3,553,506.26
2038	2,582,006.26	1,100,800.00	3,682,806.26
2039	2,687,256.26	1,133,200.00	3,820,456.26
2040	2,792,506.26	1,163,000.00	3,955,506.26
2041	2,904,850.00	1,195,200.00	4,100,050.00
2042	3,025,200.00	1,224,600.00	4,249,800.00
2043	3,143,018.76	1,256,200.00	4,399,218.76
2044	3,268,131.26	1,294,800.00	4,562,931.26
Total:	\$54,410,037.74	\$25,115,593.33	\$79,525,631.07

Source: Raymond James & Associates, Inc.

**Certificates of Participation; Leases.** On March 28, 2013, the District entered into the Prior Lease with the Corporation, pursuant to which the District agreed to pay certain base rental payments to the Corporation on each June 1 and December 1, commencing December 1, 2013, through June 1, 2028. The Corporation assigned its right to receive such base rental payments in consideration for \$19,408,712. The proceeds so received, together with certain other available amounts, were applied to the prepayment of prior certificates of participation of the District. The Prior Lease will be prepaid with a portion of the proceeds from the Certificates. See “INTRODUCTION – Purpose of the Certificates” herein and “THE REFUNDING PLAN” herein for more information regarding the prepayment of the Prior Lease.

On April 30, 2013, the District executed and delivered \$25,915,000 aggregate principal amount of the Series 2013 Certificates. The proceeds of the Series 2013 Certificates were used to finance the construction of a new elementary school.

**State Preschool Revolving Loans.** The District was approved for a loan of \$630,000 from the California Department of Education for the purpose of construction of three preschool sites. The loan is at 0% interest and is paid in annual payments of \$63,000 through fiscal year 2018-19. The loan balance at June 30, 2018, was \$63,000.00.

**Early Retirement Incentive Obligations.** The District provides the following special termination benefits for early retirement:

**Public Agency Retirement Services Program.** The District provided employees age 55 and over with a minimum of 10 years of full-time service who elected to retire before June 2008, with voluntary resignation incentive income under the Public Agency Retirement Services Program (the “Program”). Eligible retirees qualified for the Program and are receiving varying amounts per participant annually for five years. The outstanding liability for the Program was paid in full at June 30, 2018.

**Early Retirement Incentive Program.** The District provides an early retirement program to certificated, management and confidential employees (“ERIP”). To qualify, participants must be 55 years of age or older and must have served 10 years full-time in the District. Participants retiring at ages 55 through 58 can receive \$12,000 per year in exchange for days of work for the District after retirement. The number of days of work is limited by the collective bargaining agreement and/or District Board policy stipulations. Participation is limited to a maximum of five years. Participants retiring from the age of 59 to 62 are eligible to receive a set amount of \$45,000 at age 59, \$30,000 at age 60, \$15,000 at age 61 or \$7,000 at age 62. Eligible retirees qualified for ERIP and are receiving varying amounts per participant annually. The outstanding liability for ERIP was \$632,500 at June 30, 2018. The payments for EIRP are as follows:

Year Ending June 30,	Principal
2019	\$271,000
2020	151,500
2021	81,000
2022	69,000
2023	60,000
Total	\$632,500

Source: Santa Maria-Bonita School District Audited Financial Report for fiscal year 2017-18.

**Compensated Absences.** The long-term portion of compensated absences for the District at June 30, 2018, amounted to \$98,302.

**Other Post-Employment Benefits (OPEBs).** In addition to the retirement plan benefits with California State Teacher’s Retirement System (“CalSTRS”) and the State Public Employees’ Retirement System (“CalPERS”) and CalPERS (see “– Retirement Benefits” below), the District provide certain postemployment healthcare benefits in accordance with District employment contracts. The District’s postemployment healthcare plan (the “Plan”) is a single-employer defined benefit plan that provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan, as of June 30, 2018, consisted of approximately 107 inactive employees or beneficiaries currently receiving benefits under the Plan and 1,094 active employees who could become eligible to receive benefits under the Plan in the future. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

In June 2015, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“Statement Number 75”). Other post-employment benefits (meaning other than pension benefits) (“OPEB”) generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions

and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. Statement Number 75 is effective for periods beginning after June 15, 2017. The District has implemented Statement Number 75 for fiscal year 2017-18.

No assets are accumulated in a trust that meets the criteria of Statement Number 75. The contribution requirements of plan members and the District are established but may be amended by the District, the Santa Maria Elementary Education Association (“SMEEA”), the local California Service Employees Association (“CSEA”), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, SMEEA, CSEA and the unrepresented groups. For fiscal year 2017-18, the District contributed \$982,344 to the Plan.

Demsey, Filliger & Associates, Chatsworth, California, has prepared an actuarial valuation (the “Actuarial Valuation”) covering the District’s retiree health benefits and reports that, as of June 30, 2018, the total OPEB liability, which is the liability or obligation for benefits earned through the valuation date, is \$17,133,738. The Actuarial Valuation assumes, among other things, a 3.13% discount rate per year, 3.00% salary increases rate per year, an annual healthcare cost trend rate of 5.00% beginning in fiscal year 2018-19 and beyond.

***Tax and Revenue Anticipation Notes.*** The District did not issue any tax and revenue anticipation notes in fiscal year 2017-18. The District also has not issued and does not expect to issue any tax and revenue anticipation notes in fiscal year 2018-19. The District may, however, issue tax and revenue anticipation notes in future fiscal years as and when necessary to supplement cash flow.

### **Direct and Overlapping Debt**

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective February 12, 2019 for debt outstanding as of March 1, 2019. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column 2 sets forth the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Statement of Direct and Overlapping Bonded Debt**

February 12, 2019

2018-19 Assessed Valuation: \$8,804,838,406

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	% Applicable	Debt 3/1/19
Allan Hancock Joint Community College District	32.001%	\$ 40,377,018
San Luis Obispo County Community College District	0.001	1,261
Santa Maria Joint Union High School District	58.526	68,319,889
Santa Maria-Bonita School District	100.000	30,000,000 <sup>(1)</sup>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$138,698,168
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Barbara County Certificates of Participation	10.625%	\$ 4,314,813
San Luis Obispo County Certificates of Participation and Pension Obligation Bonds	0.001	1,058
Santa Maria Joint Union High School District General Fund Obligations	58.526	1,463,791
Santa Maria-Bonita School District Certificates of Participation	100.000	34,117,766 <sup>(2)</sup>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$39,897,428
Less: Santa Barbara County Supported Obligations		307,063
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$39,590,365
GROSS COMBINED TOTAL DEBT		\$178,595,596 <sup>(3)</sup>
NET COMBINED TOTAL DEBT		\$178,288,533

<sup>(1)</sup> Excludes Series 2019 Bonds.

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

Ratios to Assessed Valuation:

Direct Debt (\$30,000,000).....	0.34%
Total Direct and Overlapping Tax and Assessment Debt.....	1.58%
Total Direct Debt (\$64,117,766) .....	0.73%
Gross Combined Total Debt.....	2.03%
Net Combined Total Debt .....	2.02%

<sup>(1)</sup> Does not reflect the District's issuance of the Santa Maria-Bonita School District (County of Santa Barbara and County of San Luis Obispo, California) General Obligation Bonds, Election of 2014, Series 2019 in the aggregate principal amount of \$15,000,000 on April 25, 2019.

<sup>(2)</sup> Excludes the Certificates; includes the Prior Lease to be prepaid.

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

Source: California Municipal Statistics, Inc.

**Employment**

As of January 31, 2019, the District employed 896.9 full-time equivalent ("FTE") certificated employees, 713.5 FTE classified employees and 88 management and supervisory personnel. In fiscal year 2017-18, the total certificated and classified payrolls for all funds were approximately \$85.15 million and \$29.39 million, respectively, and are projected to be approximately \$91.78 million and \$32.98 million, respectively, in fiscal year 2018-19. As of such date, District employees were represented by employee bargaining units as follows:

The District’s certificated and classified employees are represented by the formal bargaining organization as set forth in the following table below.

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Santa Maria Elementary Education Association	920	June 30, 2020
California School Employees Association – Ch. 129	1,072	June 30, 2020

Source: Santa Maria-Bonita School District.

## Retirement Benefits

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

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

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State’s total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

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

As of June 30, 2017, an actuarial valuation (the “2017 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.3 billion, an

increase of approximately \$10.6 million from the June 30, 2016 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 62.6%, 63.7%, and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2017 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” a 7.00% investment return assumption consistent with the State Teachers’ Retirement Board’s decision on February 1, 2017, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2017 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See “–Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

Pursuant to Assembly Bill 1469, school district’s contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10
2020	18.10

Source: Assembly Bill 1469.

The following table sets forth the District’s employer contributions to CalSTRS as well as the State’s required non-employer contributions for fiscal years 2014-15 through 2017-18 and the projected contributions for fiscal year 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Contributions to CalSTRS for Fiscal Years 2014-15 through 2018-19**

Fiscal Year	District’s Contribution	State’s On-Behalf Contribution
2014-15	\$ 5,719,908	\$ 3,120,849
2015-16	7,783,254	4,131,154
2016-17	9,618,165	5,531,627
2017-18	11,880,095	6,396,447
2018-19 <sup>(1)</sup>	14,710,757	6,777,666

<sup>(1)</sup> Second interim report for fiscal year 2018-19.  
Source: Santa Maria-Bonita School District.

The District's total employer contributions to CalSTRS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

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

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

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

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

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a 15-year period with experience gains and losses spread over a rolling 30-year period. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the "2017 CalPERS Schools Pool Actuarial Valuation"). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

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



payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875 as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

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

The following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 and the projected contribution for fiscal year 2018-19.

**SANTA MARIA-BONITA SCHOOL DISTRICT**  
**(Santa Barbara and San Luis Obispo Counties, California)**  
**Contributions to CalPERS for Fiscal Years 2014-15 through 2018-19**

Fiscal Year	Contribution
2014-15	\$1,847,311
2015-16	2,222,798
2016-17	2,711,967
2017-18	3,260,272
2018-19 <sup>(1)</sup>	4,274,357

<sup>(1)</sup> Second interim report for fiscal year 2018-19.  
Source: Santa Maria-Bonita School District.

The District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see “*Governor’s Pension Reform*” below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

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

***Governor’s Pension Reform.*** On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees’ Pension Reform Act of 2012 (“PEPRA”) which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income

spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 13 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

***GASB 67 and 68.*** In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements, which generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

### **Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures**

The District is a member of the Self Insured Schools of California II (SISC II), Self Insured Schools of California III (SISC III) and the Self-Insurance Program for Employees (SIPE) public entity risk pools (collectively, the "JPAs"). The District pays an annual premium to each entity for its health, workers' compensation and property liability coverage. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes. The JPAs have budgeting and financial reporting requirements independent of members units, such as the District, and their financial statements are not presented in the District's financial statements; however, fund transactions between the JPAs and the District are included in the District's financial statements. During the fiscal year ended June 30, 2018, the District made payments of \$731,829, \$17,431,208 and \$1,962,899 to SISC II, SISC III and SIPE, respectively. For more information regarding the JPAs, see Note 15 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

### Limitations on Revenues

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

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

***County of Orange v. Orange County Assessment Appeals Board No. 3.*** Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

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

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

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

## **Article XIII B of the California Constitution**

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State’s allowable limit.

## **Article XIII C and Article XIII D of the California Constitution**

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

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

## **Statutory Limitations**

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to

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

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

### **Proposition 98 and Proposition 111**

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

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

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues,

determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

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

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

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

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

## **Proposition 30 and Proposition 55**

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

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

## **Applications of Constitutional and Statutory Provisions**

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

## **Proposition 2**

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

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

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

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

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

### **Future Initiatives**

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

### **RATING**

The Certificates were assigned a rating of “A2” by Moody’s Investors Service. The rating agency may have obtained and considered information and material which has not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by them (which may include information and material from the District which is not included in this Official Statement). The rating is not a recommendation to buy, sell or hold the Certificates. The rating reflects only the view of the rating agency and an explanation of the significance of its rating may be obtained from it. There is no assurance that a rating of a rating agency will be maintained for any given period of time or that such rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the Certificates. Neither the Underwriter nor the District has undertaken any responsibility after the execution and delivery of the Certificates to assure the maintenance of the rating or to oppose any such revision or withdrawal.

### **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, special counsel to the District (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the



portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix C hereto.

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

Certificates purchased, whether at original execution and delivery thereof or otherwise, for an amount higher than their principal evidenced thereby payable on the scheduled principal payment date thereof (or, in some cases, at their earlier prepayment date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel is expected to express no opinion.

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

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

### **CERTAIN LEGAL MATTERS**

Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, will render its opinion with respect to the legality of the Lease Agreement and the Trust Agreement. A copy of its legal opinion will accompany the original delivery of each Certificate. The form of the legal opinion proposed to be delivered by Special Counsel is included as Appendix C to this Official Statement. Special Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, and for the District and the Corporation by Price, Postel & Parma LLP, Cameron Park, California. From time to time, Orrick, Herrington & Sutcliffe LLP may represent the Underwriter on matters unrelated to the Certificates.

## **MUNICIPAL ADVISOR**

Fieldman, Rolapp & Associates, Inc. (the “Municipal Advisor”), has been engaged by the District to perform financial services in connection with the delivery of the Certificates and certain other financial matters. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Municipal Advisor is not contractually 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 contained in this Official Statement.

## **ABSENCE OF MATERIAL LITIGATION**

At the time of delivery of and payment for the Certificates, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificates, the Lease Agreement, the Ground Lease, the Trust Agreement, the Assignment Agreement or the Continuing Disclosure Certificate, (ii) contesting the validity of the Lease Agreement, the Ground Lease, the Trust Agreement, the Assignment Agreement or the Continuing Disclosure Certificate, the powers of the District to enter into or perform its obligations under the Lease Agreement, the Ground Lease, the Trust Agreement or the Continuing Disclosure Certificate, or the existence or powers of the District, or (iii) which, if determined adversely to the District, would materially impair the District’s ability to meet its obligations under the Lease Agreement or materially and adversely affect the District’s financial condition.

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

## **UNDERWRITING**

The Certificates are to be purchased by Raymond James & Associates, Inc. (the “Underwriter”). The Underwriter has agreed, subject to certain terms and conditions set forth in the Certificate Purchase Agreement, dated \_\_\_\_\_, 2019, by and between the Underwriter and the District, to purchase the Certificates at a purchase price of \$[\_\_\_\_\_] (which represents the aggregate principal amount of the Certificates, [plus/less] \$[\_\_\_\_\_] of [net] original issue [premium/discount], and less \$[\_\_\_\_\_] of Underwriter’s discount). The Underwriter will purchase all the Certificates if any are purchased. The Certificates may be offered and sold to certain dealers (including dealers depositing said Certificates into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

## **MISCELLANEOUS**

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof.

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

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

**SANTA MARIA-BONITA SCHOOL  
DISTRICT**

By \_\_\_\_\_  
Assistant Superintendent  
for Business Services

## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following summary discussion of selected provisions of the Lease Agreement, the Ground Lease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.*

### MASTER DEFINITIONS

**“Additional Rental Payments”** means all amounts payable by the District as Additional Rental Payments pursuant to the Lease Agreement.

**“Asbestos Containing Materials”** means material in friable form containing more than 1% of the asbestiform varieties of (a) chrysotile (serpentine), (b) crocidolite (ricbeckite), (c) amosite (cummingtonitegrinerite), (d) anthophyllite, (e) tremolite and (f) actinolite.

**“Assignment Agreement”** means the Assignment Agreement, dated as of the date of the Trust Agreement, by and between the Corporation and the Trustee, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Authorized Corporation Representative”** means the President of the Corporation, the Vice President of the Corporation, the Treasurer of the Corporation and the Secretary of the Corporation, and any other person authorized by the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement.

**“Authorized Denominations”** means \$5,000 or any integral multiple thereof.

**“Authorized District Representative”** means the President of the Board of Trustees, the Clerk of the Board of Trustees, and such other member of the Board of Trustees as the President may designate, the Superintendent of the District, the Assistant Superintendent for Business Services of the District, and any person authorized by the Board of Trustees of the District to act on behalf of the District under or with respect to the Trust Agreement.

**“Base Rental Deposit Date”** means the 15th day next preceding each Interest Payment Date.

**“Base Rental Payment Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Base Rental Payment Schedule”** means the schedule of Base Rental Payments payable to the Corporation from the District pursuant to the Lease Agreement.

**“Base Rental Payments”** means all amounts payable to the Corporation from the District as Base Rental Payments pursuant to the Lease Agreement.

**“Beneficial Owners”** means those Persons for whom the Participants have caused the Depository to hold Book-Entry Certificates.

**“Book-Entry Certificates”** means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city or cities in which the Principal Office of the Trustee is located are authorized or required by law to be closed, or (c) a day on which the New York Stock Exchange is closed.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Certificates.

**“Certificate Purchase Agreement”** means the Certificate Purchase Agreement, by and between the Purchaser and the District relating to the Certificates.

**“Certificates”** means the Santa Maria-Bonita School District Refunding Certificates of Participation, Series 2019, executed and delivered by the Trustee pursuant to the Trust Agreement.

**“Code”** means the Internal Revenue Code of 1986.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate, dated the Delivery Date, executed by the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Corporation”** means the Santa Maria-Bonita Capital Facilities Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State of California, and its successors.

**“Corporation Event of Default”** means an event described as such in the Lease Agreement.

**“Costs of Issuance”** means all the costs of executing and delivering the Certificates, including, all printing and document preparation expenses in connection with the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees, title insurance fees, market study fees, legal fees and expenses of counsel with respect to the execution and delivery of the Certificates, any computer and other expenses incurred in connection with the Certificates, the fees and expenses of the Trustee, including fees and expenses of its counsel, the fees and expenses of any municipal advisor to the District, and other fees and expenses incurred in connection with the execution of the Certificates or the prepayment of the outstanding base rental payments under the Prior Lease, to the extent such fees and expenses are approved by the District.

**“Costs of Issuance Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Defeasance Securities”** means (a) non-callable direct obligations of the United States of America (“United States Treasury Obligations”), (b) evidences of ownership of proportionate interests in future interest and principal payments on United States Treasury Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying United States Treasury Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (c) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (d) securities eligible for “AAA” defeasance under then existing criteria of S&P, or any combination thereof.

**“Delivery Date”** means the date of delivery of the Certificates.

**“Depository”** means the securities depository acting as Depository pursuant to the Trust Agreement.

**“District”** means the Santa Maria-Bonita School District, a school district organized and existing under the laws of the State of California, and its successors.

**“DTC”** means The Depository Trust Company, New York, New York, and its successors.

**“Environmental Regulations”** means all Laws and Regulations, now or thereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, *et seq.*) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, *et seq.*) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, *et seq.*) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, *et seq.*) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, *et seq.*) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 *et seq.*) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

**“Fair Rental Value”** means, with respect to the Property, the annual fair rental value thereof, as set forth in the Lease Agreement.

**“Ground Lease”** means the Ground Lease, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof and of the Lease Agreement.

**“Hazardous Materials”** means flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the Corporation, the District, the Property or the business operations conducted by the Corporation or the District thereon.

**“Independent Insurance Consultant”** means a nationally recognized independent actuary, insurance company or broker that has actuarial personnel experienced in the area of insurance for which the District is to be self-insured, as may from time to time be designated by the District.

**“Interest Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Interest Payment Date”** means June 1 and December 1 of each year commencing December 1, 2019.

**“Laws and Regulations”** means any applicable law, regulation, code, order, rule, judgment or consent agreement, including those relating to zoning, building, use and occupancy, fire safety, health,

sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property.

**“Lease Agreement”** means the Lease Agreement, dated as of the date of the Trust Agreement, by and between the District and the Corporation, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Letter of Representations”** means the letter of the District delivered to and accepted by the Depository on or prior to the delivery of the Certificates as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be amended or supplemented or replaced by a letter to a substitute Depository.

**“Mandatory Sinking Account Payment”** means the principal evidenced by the Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement.

**“Mandatory Sinking Account Payment Date”** means, for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_, and for the Certificates with a stated Principal Payment Date of December 1, 20\_\_, December 1, 20\_\_, and each December 1 thereafter continuing through and including December 1, 20\_\_.

**“Moody’s”** means Moody’s Investors Service, Inc., its successors and assigns, and, if Moody’s Investors Service, Inc., shall for any reason no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Net Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000 paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Nominee”** means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District.

**“Outstanding”** means, with respect to the Certificates, as of any date, Certificates theretofore or thereupon being executed and delivered under the Trust Agreement, except (a) Certificates canceled by the Trustee or delivered to the Trustee for cancellation on or prior to such date, (b) Certificates in lieu of which other Certificates have been executed and delivered, or that have been paid without surrender thereof pursuant to the Trust Agreement, and (c) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement.

**“Owner”** means, with respect to a Certificate, the Person in whose name such Certificate is registered on the Registration Books.

**“Participating Underwriter”** has the meaning ascribed to such term in the Continuing Disclosure Certificate.



**“Participant”** means any entity which is recognized as a participant by the Depository in the book-entry system of maintaining records with respect to Book-Entry Certificates.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Taxes,” permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally would exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the District, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that exist of record as of the Delivery Date that the District certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement, and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date that the District certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Corporation consents in writing.

**“Permitted Investments”** means the following:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America (“Federal Securities);

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand deposit accounts or time deposits (including certificates of deposit) in a federal or state chartered bank (including the Trustee and its affiliates) or a state licensed branch of a foreign bank or a state or federal association (as defined in Section 5102 of the California Financial Code), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated A1 or better by S&P, or (ii) such demand deposit accounts or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by S&P, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short-term rating category by S&P, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Code and which are rated A or better by S&P;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P;

(h) money market funds which are rated Am or better by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services;

(i) an investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution or corporation, the long-term unsecured obligations of which are or, in the case of an insurance company, the long term financial strength of which is, rated "AA-" or better by S&P at the time of initial investment; provided, that the investment agreement shall be subject to a downgrade provision with at least the following requirements:

(1) the agreement shall provide that within ten Business Days after the financial institution's long-term unsecured credit rating has been withdrawn, suspended, or reduced below "AA-" by S&P (such events referred to as "rating downgrades") the financial institution shall give notice to the District and the Trustee and, within such ten-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the Trustee Federal Securities with an aggregate current market value equal to at least 105% of the principal amount of the investment agreement invested with the financial institution at that time, and shall deliver additional Federal Securities as needed to maintain an aggregate current market value equal to at least 105% of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, and

(2) the agreement shall provide that, if the financial institution's long-term unsecured credit rating is reduced below "A-" by S&P, the financial institution shall give notice of the downgrade to the District and the Trustee within five Business Days, and the Trustee may, upon five Business Days' written notice to the financial institution, withdraw all amounts invested pursuant to the investment agreement, with accrued but unpaid interest thereon to the withdrawal date, and terminate the agreement.

(j) repurchase agreements with (i) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated at least "A" by S&P and Moody's; (ii) any broker-dealer with "retail customers" or a related affiliate thereof, which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity (or entity whose obligations are guaranteed by an affiliate or parent company) rated at least "A" by S&P and Moody's, provided that:

(1) the market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

(2) the Trustee or a third party acting solely as agent therefor (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books);

(3) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(4) all other requirements of S&P and Moody’s in respect of repurchase agreements shall be met; and

(5) the repurchase agreement shall provide that if during its term the provider’s rating by either S&P or Moody’s is withdrawn or suspended or falls below “A-” or “A3” respectively, the provider must immediately notify the District and Trustee and the provider must, at the direction of the District or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Trustee.

**“Persons”** means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**“Prepayment Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Principal Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Principal Office”** means the Trustee’s principal corporate trust office in Los Angeles, California, or any other office designated by the Trustee.

**“Principal Payment Date”** means, with respect to a Certificate, the date on which the principal evidenced by such Certificate is scheduled, as of the date of execution and delivery of such Certificate, to become due and payable.

**“Prior Lease”** means the Lease Agreement, dated as of March 1, 2013, by and between the District and the Corporation.

**“Property”** means the real property described in Exhibit B to the Lease Agreement and any improvements thereto.

**“Purchaser”** means Raymond James & Associates, Inc., as underwriter and purchaser of the Certificates pursuant to the Certificate Purchase Agreement.

**“Rebate Fund”** means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

**“Record Date”** means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

**“Registration Books”** means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Certificates pursuant to the Trust Agreement.

**“Release”** means to pump, spill, leak, dispose of, empty, discharge or release.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Delivery Date through June 30, 2019 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

**“S&P”** means S&P Global Ratings, a business unit of Standard and Poor’s Financial Services, LLC, its successors and assigns, and, if S&P Global Ratings shall for any reason no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the District.

**“Scheduled Termination Date”** means [June][December] 1, 20\_\_.

**“Tax Certificate”** means the Tax Certificate executed by the District at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trust Agreement”** means the Trust Agreement, dated as of June 1, 2019, by and among the Trustee, the Corporation and the District, as originally executed and as it may from time to time be amended, supplemented or otherwise modified in accordance with the provisions thereof.

**“Trustee”** means U.S. Bank National Association, as trustee under the Trust Agreement, or any successor thereto as Trustee thereunder substituted in its place as provided therein.

**“Verification Report”** means, with respect to the deemed payment of Certificates pursuant to clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of clause (ii) of paragraph (a) of the provisions of the Trust Agreement described under the heading “DEFEASANCE – Certificates Deemed To Have Been Paid.”

**“Written Certificate of the Corporation”** means a written certificate signed in the name of the Corporation by an Authorized Corporation Representative. Any such certificate may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

**“Written Certificate of the District”** or **“Written Request of the District”** means, respectively, a written certificate or written request signed in the name of the District by an Authorized District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

## **GROUND LEASE**

### **Lease of the Property; Rental**

Lease of Property. The District leases to the Corporation, and the Corporation leases from the District, for the benefit of the Owners of the Certificates, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of the Ground Lease.

Rental. The Corporation shall pay, or cause to be paid, to the District as and for rental of the Property under the Ground Lease, an amount set forth in the Ground Lease (the "Ground Lease Payment"). The Ground Lease Payment shall be paid from the proceeds of the Certificates; provided, however, that in the event the available proceeds of the Certificates are not sufficient to enable the Corporation to pay such amount in full, the remaining amount of the Ground Lease Payment shall be reduced to an amount equal to the amount of such available proceeds. The District shall deposit the Ground Lease Payment in one or more separate funds or accounts to be held and administered for the purpose of prepaying the outstanding base rental payments under the Prior Lease thereby terminating the Prior Lease.

The Corporation and the District find and determine that the amount of the Ground Lease Payment does not exceed the fair market value of the leasehold interest in the Property which is conveyed under the Ground Lease by the District to the Corporation. No other amounts of rental shall be due and payable by the Corporation for the use and occupancy of the Property under the Ground Lease.

### **Quiet Enjoyment**

The parties intend that the Property will be leased back to the District pursuant to the Lease Agreement for the term thereof. It is further intended that, to the extent provided in the Ground Lease and in the Lease Agreement, if an event of default occurs under the Lease Agreement, the Corporation, or its assignee, will have the right, for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. Subject to any rights the District may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the District covenants and agrees that it will not take any action to prevent the Corporation from having quiet and peaceable possession and enjoyment of the Property during the term of the Ground Lease and will, at the request of the Corporation and at the District's cost, to the extent that it may lawfully do so, join in any legal action in which the Corporation asserts its right to such possession and enjoyment.

### **Special Covenants and Provisions**

Waste. The Corporation agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Further Assurances and Corrective Instruments. The District and the Corporation agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements to the Ground Lease and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property leased or intended so to be or for carrying out the expressed intention of the Ground Lease, the Lease Agreement and the Trust Agreement.

Waiver of Personal Liability. All liabilities under the Ground Lease on the part of the Corporation shall be solely liabilities of the Corporation as a nonprofit public benefit corporation, and the District

releases each and every director, officer and employee of the Corporation of and from any personal or individual liability under the Ground Lease. No director, officer or employee of the Corporation shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the District or to any other party whomsoever for anything done or omitted to be done by the Corporation under the Ground Lease.

All liabilities under the Ground Lease on the part of the District shall be solely liabilities of the District as a school district, and the Corporation releases each and every member, officer and employee of the District of and from any personal or individual liability under the Ground Lease. No member, officer or employee of the District shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the Corporation or to any other party whomsoever for anything done or omitted to be done by the District under the Ground Lease.

Taxes. The District covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The District reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Representations of the District. The District represents and warrants to the Corporation and the Trustee as follows:

- (a) the District has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution of the Ground Lease;
- (b) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for school purposes as contemplated by the District;
- (c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full; and
- (d) the Property is necessary to the District in order for the District to perform its governmental function relating to public education.

Representations of the Corporation. The Corporation represents and warrants to the District that the Corporation has the full power and authority to enter into, to execute and to deliver the Ground Lease, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Ground Lease.

### **Assignment, Selling and Subleasing**

Assignment to Trustee; Third-Party Beneficiary. The Corporation and District acknowledge that the Corporation has assigned its right, title and interest in and to the Ground Lease to the Trustee pursuant to the Assignment Agreement. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement (which is occurring simultaneously with the execution and delivery of the Ground Lease), substantially all right, title and interest of the Corporation in and to the Ground Lease will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District thereby consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment

Agreement, references in the operative provisions of the Ground Lease to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation. The District consents to the Trust Agreement and acknowledges and agrees to the rights of the Trustee as set forth therein. As a material inducement to the Trustee, the Corporation and the District agree that the Trustee shall be a third-party beneficiary of the Ground Lease.

Assignment, Selling and Subleasing. The Ground Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Corporation, without the necessity of obtaining the consent of the District, if an event of default occurs under the Lease Agreement. The Corporation shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the District a true and correct copy of such assignment, sublease or sale, as the case may be.

Restrictions on District. The District agrees that, except with respect to Permitted Encumbrances and except as provided in the Ground Lease, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

### **Improvements**

Title to all improvements made on the Property during the term of the Ground Lease shall vest in the District, but shall be subject to the terms of the Ground Lease.

### **Term; Termination**

Term. The term of the Ground Lease shall commence as of the date of commencement of the term of the Lease Agreement and shall remain in full force and effect from such date to and including the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Ground Lease.

Extension; Early Termination. If, on the Scheduled Termination Date, the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement shall have been abated at any time, then the term of the Ground Lease shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, except that the term of the Ground Lease shall in no event be extended more than ten years beyond the Scheduled Termination Date. If, prior to the Scheduled Termination Date, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms, the term of the Ground Lease shall end simultaneously therewith.

Action on Default. In each and every case upon the occurrence and during the continuance of a default by the Corporation under the Ground Lease, the District shall have all the rights and remedies permitted by law, except the District, to the extent permitted by law, waives any and all rights to terminate the Ground Lease.

### **Miscellaneous**

Binding Effect. The Ground Lease shall inure to the benefit of and shall be binding upon the District, the Corporation and their respective successors and assigns.

Severability. In the event any provision of the Ground Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of the Ground Lease.

Amendments; Substitution and Release. The Ground Lease may be amended, changed, modified, altered or terminated only in accordance with the provisions of the Lease Agreement. The District shall have the right to substitute alternate real property for the Property or to release portions of the Property as provided in the Lease Agreement.

Governing Law. The Ground Lease shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## **LEASE AGREEMENT**

### **Lease of Property; Term**

Lease of Property. (a) The Corporation leases to the District and the District leases from the Corporation the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

(b) The leasing of the Property by the District to the Corporation pursuant to the Ground Lease shall not effect or result in a merger of the District's leasehold estate in the Property as lessee under the Lease Agreement and its fee estate in the Property as lessor under the Ground Lease, and the Corporation shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The Lease Agreement shall constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the District to the Corporation pursuant to the Ground Lease is and shall be independent of the Lease Agreement; the Lease Agreement shall not be an assignment or surrender of the leasehold interest in the Property granted to the Corporation under the Ground Lease.

Term; Occupancy. (a) The term of the Lease Agreement shall commence on the Delivery Date and shall end on the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Scheduled Termination Date the Certificates shall not be fully paid, or provision therefor made in accordance with the defeasance provisions described in the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, and the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date. If prior to the Scheduled Termination Date, or prior to the date to which the term of the Lease Agreement has been extended pursuant to the Lease Agreement, all Certificates shall be fully paid, or provision therefor made in accordance with the defeasance provisions of the Trust Agreement, the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of the Lease Agreement shall end simultaneously therewith.

(b) The District shall take possession of the Property on the Delivery Date.

### **Rental Payments**



Base Rental Payments. (a) *General.* Subject to the provisions of the Lease Agreement described under the heading “– Rental Abatement” and “EMINENT DOMAIN; PREPAYMENT” and the provisions thereof relating to a revision of the Base Rental Payment Schedule pursuant to paragraph (b) below, the District shall pay to the Corporation, as Base Rental Payments, the amounts, at the times, specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments shall constitute principal components and a portion of which shall constitute interest components. The interest components of the Base Rental Payments shall be paid by the District as and constitute interest paid on the principal components of the Base Rental Payments. Except to the extent specified in the Lease Agreement described under the heading “–Rental Abatement,” Rental Payments, including Base Rental Payments, shall be paid by the District to the Corporation for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

The obligation of the District to make the Base Rental Payments does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State of California is obligated to levy or pledge any form of taxation or for which the District or the State of California has levied or pledged any form of taxation.

(b) *Payments other than Regularly Scheduled Payments.* If the term of the Lease Agreement shall have been extended pursuant to the provisions of the Lease Agreement described under the heading “LEASE OF PROPERTY; TERM – Term; Occupancy,” the obligation of the District to pay Rental Payments shall continue to and including the date of termination of the term of the Lease Agreement as so extended. Upon such extension, the principal and interest components of the Base Rental Payments shall be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property

Additional Rental Payments. The District shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Corporation or the District or affecting the Property or the respective interests or estates of the Corporation or the District therein;

(b) all reasonable administrative costs of the Corporation relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Corporation under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Trust Agreement or the Lease Agreement or to defend the Corporation and its members, directors, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE;”

(d) any amounts with respect to the Lease Agreement, the Trust Agreement or the Certificates required to be rebated to the federal government in accordance with section 148(f) of the Code; and

(e) all other payments not constituting Base Rental Payments required to be paid by the District under the provisions of the Lease Agreement or the Trust Agreement.

Amounts constituting Additional Rental Payments payable under the Lease Agreement shall be paid by the District directly to the person or persons to whom such amounts shall be payable. The District shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the District stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Fair Rental Value. The parties to the Lease Agreement have agreed and determined that the Rental Payments are not in excess of the Fair Rental Value of the Property. In making such determination of Fair Rental Value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom that will accrue to the District and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement shall be paid in lawful money of the United States of America to or upon the order of the Trustee, as assignee of the Corporation, at the Principal Office of the Trustee, or such other place or entity as the Trustee shall designate. Each Base Rental Payment shall be deposited with the Trustee, as assignee of the Corporation, no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment that shall not be paid by the District when due and payable under the terms of the Lease Agreement shall bear interest from the date when the same is due under the Lease Agreement until the same shall be paid at the rate equal to the highest rate of interest evidenced by any of the Outstanding Certificates. Notwithstanding any dispute between the Corporation and the District, the District shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the District was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the District with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The District covenants to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The covenants on the part of the District in the Lease Agreement contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

Rental Abatement. (a) Except as otherwise specifically provided in the Lease Agreement described under this heading "RENTAL PAYMENTS – Rental Abatement," during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the District's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately based on the percentage of the Property that is made unavailable for the District's use and occupancy and the percentage of the Property that is not made unavailable for the District's use and occupancy as a result of such damage, destruction, condemnation or title defect, and the District waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The District and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion

of the Property available for use and occupancy by the District during such Rental Period. The District and the Corporation shall provide the Trustee with a certificate setting forth the amount of abatement and the basis therefor. Such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and, to the extent necessary to pay unpaid Rental Payments, the term of the Lease Agreement shall be extended as provided in the Lease Agreement described under the heading "LEASE OF PROPERTY; TERM – Term; Occupancy," except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date.

(b) Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments shall not be abated as provided above but, rather, shall be payable by the District as a special obligation payable solely from said funds and accounts.

### **Maintenance; Alterations and Additions**

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the District, and the District shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Rental Payments, the Corporation agrees to provide only the Property.

Additions to Property. Subject to the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Liens," the District and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to this paragraph, shall be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of District's Equipment. The District and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the District or such sublessee, and neither the Corporation nor the Trustee shall have any interest therein. The District or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the District or any sublessee from purchasing items to be installed pursuant to this paragraph under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

## Insurance

Property Casualty Insurance; Rental Interruption Insurance. (a) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the District, the Corporation and their respective members, directors, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the District. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid. The District's obligations under this paragraph may be maintained in whole or in part in the form of self-insurance by the District, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(b) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the District in connection with the Property and to cover full liability for compensation under any such act. The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(c) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision. Full insurable value shall not be less than the principal evidenced by the Outstanding Certificates. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds." The District's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement described under the heading "INSURANCE – Self-Insurance."

(d) The District shall maintain or cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to paragraph (c) above in an amount equal to the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in Trust Agreement described under the heading "FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Pledge; Base Rental Payment Fund." The District's obligations under this paragraph may not be satisfied by self-insurance.

(e) The insurance required by the Lease Agreement described under this heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” shall be provided by carriers rated at least “A” by A.M. Best Company or S&P.

Title Insurance. The District shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate amount of principal evidenced by the Certificates. Said policy or policies shall insure (a) the fee interest of the District in the Property, (b) the Corporation’s ground leasehold estate in the Property under the Ground Lease, and (c) the District’s leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. All Net Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Title Insurance.” So long as any of the Certificates remain Outstanding, each policy of title insurance obtained pursuant to or required by the Lease Agreement shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Certificate Owners.

Additional Insurance Provision; Form of Policies. (a) The District shall pay or cause to be paid when due the premiums for all insurance policies required by the provisions of the Lease Agreement described under the heading “INSURANCE – Property Casualty Insurance; Rental Interruption Insurance,” and shall promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall contain a standard lessee clause in favor of the Trustee and the general liability insurance policies shall be endorsed to show the Trustee as an additional insured. All such policies shall provide that the Trustee shall be given 30 days notice of the expiration thereof, any intended cancellation thereof or any reduction in the coverage provided thereby. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

(b) The District shall cause to be delivered to the Trustee on or before August 15 of each year, commencing August 15, 2019, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Written Certificate of the District stating that such policies are in full force and effect and that the District is in full compliance with the requirements of the provisions of the Lease Agreement described under the heading “INSURANCE.” The Trustee shall be entitled to rely upon said Written Certificate of the District as to the District’s compliance with the provisions of the Lease Agreement described under the heading “INSURANCE.” The Trustee shall not be responsible for the sufficiency of coverage or amounts of such policies.

Self-Insurance. Insurance provided through a California joint powers authority of which the District is a member or with which the District contracts for insurance shall be deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the District pursuant to the provisions of the Lease Agreement described under the heading “INSURANCE,” shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by an Independent Insurance Consultant;

(b) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated on an annual basis by the Independent Insurance Consultant and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of such Independent Insurance Consultant;

(c) the self-insured claims reserve fund shall be held in a separate trust fund; and

(d) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the Independent Insurance Consultant, shall be maintained.

### **Defaults and Remedies**

Defaults and Remedies. (a) (i) If the District shall fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement, or in the Trust Agreement to be kept or performed by the District, or (ii) upon the happening of any of the events specified in paragraph (b) below, the District shall be deemed to be in default under the Lease Agreement and it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The District shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be or performed, other than as referred to in clause (i)(A), or (ii) of the preceding sentence, unless the District shall have failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Corporation to the District properly specifying wherein the District has failed to perform any such covenant, condition or agreement. Upon any such default, the Corporation, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner provided in the Lease Agreement on account of default by the District, notwithstanding any re-entry or re-letting of the Property as provided for in subparagraph (2) of the Lease Agreement, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District. In the event of such termination, the District agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of default by the District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Lease Agreement shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law or acts of the parties to the Lease Agreement, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated by the Corporation by such written notice.

(2) Without terminating the Lease Agreement (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the District, regardless of whether or not the District has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (1) of the Lease Agreement, the District shall remain liable and agrees to keep or perform all covenants and conditions in the Lease Agreement contained to be kept or performed by the District and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event

that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Corporation elect to re-enter as in the Lease Agreement provided, the District irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to re-let the Property, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the District, and the District indemnifies and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions in the Lease Agreement contained. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the District the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (1) of the Lease Agreement. The District further agrees to pay the Corporation the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the District of the completion and installation of such additions or alterations.

Pursuant to the Lease Agreement, the District waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District, or any other person, that may be in or upon the Property.

(b) If (i) the District's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation as in the Lease Agreement thereafter provided for, (ii) the District or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the District asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the District's debts or obligations, or offers to the District's creditors to effect a composition or extension of time to pay the District's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the District's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the District, or if a receiver of the business or of the property or assets of the District shall be appointed by any court, except a receiver appointed at the instance or request of the Corporation, or if the District shall make a general assignment for the benefit of the District's creditors, or (iii) the District shall abandon or vacate the Property, then the District shall be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies set forth in the provisions of the Lease Agreement described under this heading “– Defaults and Remedies,” upon the occurrence of an event of default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in the Corporation by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the District and of its board, officers or employees shall be enforceable by the Corporation by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) *Accounting.* By action or suit in equity to require the District and its board, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction.* By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation.

(iii) *Mandamus.* By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation’s rights against the District (and its board, officers and employees) and to compel the District to perform and carry out its duties and obligations under the law and its covenants and agreements with the District as provided in the Lease Agreement.

Each and all of the remedies given to the Corporation under the Lease Agreement or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease Agreement shall not impair the right of the Corporation to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term “re-let” or “re-letting” as used in the Lease Agreement described under this heading “– Defaults and Remedies,” shall include, but not be limited to, re-letting by means of the operation by the Corporation of the Property. If any statute or rule of law validly shall limit the remedies given to the Corporation under the Lease Agreement, the Corporation nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Corporation shall prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the District shall pay a reasonable amount as and for attorney’s fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Corporation shall have no right upon a default under the Lease Agreement by the District or otherwise to accelerate Rental Payments.

(d) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Corporation on account of a default by the District under the Lease Agreement described under this heading “– Defaults and Remedies,” shall not effect or result in a termination of the lease of the Property by the District to the Corporation pursuant to the Ground Lease.

Waiver. Failure of the Corporation to take advantage of any default on the part of the District shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Corporation to insist upon performance by the District of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Corporation on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement shall not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.



Corporation Event of Default; Action on Corporation Event of Default. The failure by the Corporation to observe and perform the covenants, agreements or conditions on its part contained in the provisions of the Lease Agreement described under the heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Quiet Enjoyment,” if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Corporation and the Trustee, by the District, shall constitute a Corporation Event of Default under the Lease Agreement. In each and every case upon the occurrence and during the continuance of a Corporation Event of Default by the Corporation under the Lease Agreement, the District shall have all the rights and remedies permitted by law. Notwithstanding anything to the contrary contained in the Lease Agreement, the provisions of this paragraph shall not impair, restrict or limit the application of the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement.”

### **Eminent Domain; Prepayment**

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the District) shall be taken under the power of eminent domain, the term of the Lease Agreement shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the District at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement described under the heading “RENTAL PAYMENTS – Rental Abatement. So long as any Certificate is Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the prepayment of Certificates as provided in prepayment provisions of the Trust Agreement and as described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds.” Any such award made after all of the Certificates, and all other amounts due under the Trust Agreement and under the Lease Agreement, have been fully paid, shall be paid to the Corporation and to the District as their respective interests may appear.

Prepayment. (a) The District may not prepay all or a portion of the Base Rental Payments.

### **Representations and Warranties; Covenants**

Representations of the District. The District represents and warrants that, as of the Delivery Date:

(a) the District has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement;

(b) the Property is not located in a 100-year flood plain;

(c) the District has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any Laws and Regulations;

(d) without limiting the generality of the foregoing, neither the District nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as set forth in this paragraph or as may have been remediated in accordance with

Laws and Regulations (i) used, treated, stored, transported or disposed of any material amount of Hazardous Materials on, from or beneath the Property, (ii) Released any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks; provided, however, that excluded from the representations and warranties in this paragraph with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of school buildings, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations;

(e) no portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property, respectively; and

(f) the District has not received any notice from any insurance company that has issued a policy with respect to the Property or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed at the Property, respectively. The District has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement, agreement or other easement affecting the Property which is to be performed or complied with by it.

Representations of the Corporation. The Corporation represents and warrants that the Corporation, as of the Delivery Date, has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Assignment Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement and the Trust Agreement.

Right of Entry. The Corporation shall have the right to enter upon and to examine and inspect the Property during reasonable business hours, and in emergencies at all times, for any reasonable purpose connected with the Corporation's rights or obligations under the Lease Agreement, and for all other lawful purposes.

Quiet Enjoyment. The District, by keeping and performing the covenants and agreements in the Lease Agreement contained, shall at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Corporation.

Liens. In the event the District shall at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the District shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the District in, upon or about the Property and that may be secured by a mechanics', materialmen's or other lien against the Property or the Corporation's interest therein, and shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, provided, however that, if the District desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the District shall forthwith pay and discharge said judgment.

Taxes. (a) The District shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

(b) After giving notice to the Corporation and the Trustee, the District or any sublessee may, at the District's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation or the Trustee shall notify the District or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the District or such sublessee shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the District under the Lease Agreement shall be sold, mortgaged, pledged, assigned or transferred by the District by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the District with the prior written consent of the Corporation and, provided, further, that, any such sublease shall be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the District to make all Rental Payments under the Lease Agreement shall remain the primary obligation of the District;

(b) the District shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the District shall cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the District shall explicitly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the District; and

(e) the District shall furnish the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes.

Environmental Compliance. (a) Neither the District nor the Corporation shall use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then only in compliance with all Environmental Regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee or agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property, excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of school districts, the use, storage, treatment, transportation and

disposal of which shall be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the Corporation or the District shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained in the Lease Agreement, underground storage tanks shall only be permitted subject to compliance with paragraph (d) below and only to the extent necessary to maintain the improvements on the Property.

(b) The District and the Corporation shall comply with, and shall cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and shall keep the Property free and clear of any liens imposed pursuant thereto, provided, however, that any such liens, if not discharged, may be bonded. The District and the Corporation shall cause each tenant under any lease, and use their best efforts to cause all of such tenant's subtenants, agents, licensees, employees, contractors, guests and invitees and the guests and invitees of all of the foregoing to comply with all Environmental Regulations with respect to the Property; provided, however, that the Corporation and the District shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the Corporation's or the District's obligations contained in paragraph (c) below. Upon receipt of any notice from any Person with regard to the Release of Hazardous Materials on, from or beneath the Property, the District or the Corporation, as appropriate, shall give prompt written notice thereof to the District or the Corporation, as appropriate and the Trustee prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the provisions of the Lease Agreement described under the heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Representations of the District" is not true or correct, the Corporation and the District shall, to the extent permitted by law, defend, indemnify and hold harmless the Corporation and the Trustee and any director, member, officer, employee, successor or assign thereof, from and against any claims, demands, penalties, fines, attorneys' fees, including, attorneys' fees incurred to enforce the indemnification contained in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Environmental Compliance," consultants' fees, investigation and laboratory fees, liabilities, settlements (five Business Days' prior notice of which the Corporation or the Trustee, as appropriate, shall have delivered to the District), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury, including wrongful death, or property damage, real or personal, arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Corporation or the Trustee, as appropriate, shall have delivered to the District), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or paragraphs (a) or (b) above by either the District or the Corporation or any of their agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that either the Corporation or the District is strictly liable under any Environmental Regulation, the District's obligation to the Corporation and the Trustee and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under this paragraph shall survive the payment of all Certificates and the discharge of the Trust Agreement.

(d) The District shall conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and shall maintain, repair and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

Condemnation. So long as the Certificates are Outstanding, the District to the extent it may lawfully so bind itself shall not exercise the power of condemnation with respect to the Property. To the extent permitted by law, if for any reason the foregoing covenant is determined to be unenforceable or if the District shall fail or refuse to abide by such covenant and condemns the Property, the value of the District's leasehold estate under the Lease Agreement in the Property shall be not less than the amount sufficient to pay the Base Rental Payments to the first date on which they may be prepaid pursuant to the provisions of the Lease Agreement described under the heading "EMINENT DOMAIN; PREPAYMENT – Prepayment" and to prepay the Base Rental Payments on such date.

Other Obligations. Except for the Certificates and Permitted Encumbrances, the District shall not, during the term of the Lease Agreement, issue or incur or cause to be executed and delivered, directly or indirectly, any additional certificates of participation, notes, bonds or other indebtedness that are either (a) payable from or secured by lease payments or rentals payable under the Lease Agreement, or (b) secured by, or granted a lien on, the Property.

Corporation Not Liable; Indemnification. None of the Corporation and the Trustee and all directors, members, officers and employees thereof shall be liable to the District or to any other Person for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the District shall, at its expense, indemnify and hold the Corporation and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any Person arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the Person seeking indemnity. The District at its expense shall pay and indemnify and save the Corporation and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the District in the performance of any covenant or agreement to be performed by the District pursuant to the Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement described under this heading "REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification," but excepting the negligence or willful misconduct of the Person seeking indemnity. In the event that any action or proceeding is brought against the Corporation or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the District, upon notice from the Corporation or the Trustee or such director, member, officer or employee thereof, shall resist or defend such action or proceeding by counsel reasonably satisfactory to the Corporation or the Trustee or such director, member, officer or employee thereof.

Notwithstanding the fact that it is the intention of the parties that the Corporation and the Trustee and all directors, members, officers and employees thereof shall not incur any pecuniary liability by reason of the terms of the Lease Agreement, or the undertakings required of the Corporation under the Lease Agreement or any director, member, officer or employee thereof, by reason of the execution and delivery of the Certificates, by reason of the execution or authorization of any document or certification in

connection with the Certificates including, the Trust Agreement, the Lease Agreement or any preliminary or final official statement, by reason of the performance or nonperformance of any act required of any of them by the Lease Agreement or the Trust Agreement or by reason of the performance or nonperformance of any act requested of any of them by the District, the Corporation or the Trustee, including all claims, liabilities, damages, losses or expenses arising in connection with the violation of any statute or regulation pertaining to the foregoing; nevertheless, if the Corporation or the Trustee or any director, member, officer or employee thereof should incur any such pecuniary liability, then in such event the District shall indemnify and hold harmless the Corporation and the Trustee, and all directors, members, officers and employees thereof, against all claims by or on behalf of any Person arising out of the same, or in connection with any action or proceeding brought thereon, but excepting the negligence or willful misconduct of the Person seeking indemnity, and upon notice from the Corporation or the Trustee, the District shall defend the Corporation and the Trustee in any such action or proceeding. The provisions in the Lease Agreement described under this heading “REPRESENTATIONS AND WARRANTIES; COVENANTS – Corporation Not Liable; Indemnification,” shall survive the termination of the Lease Agreement for any claim, proceeding or action arising from any event or omission occurring during the term of the Lease Agreement.

Title to Property upon Termination. Upon the termination or expiration of the term of the Lease Agreement other than as provided in the defaults and remedies, eminent domain provisions of the Lease Agreement, and the first date upon which the Certificates are no longer Outstanding, all right, title and interest in and to the Property shall vest in the District. Upon any such termination or expiration, the Corporation shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

#### **No Consequential Damages; Use of the Property; Substitution or Release**

No Consequential Damages. In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the District’s use of the Property.

Use of the Property. The District shall not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the District shall comply in all respects, including, with respect to the use, maintenance and operation of the Property, with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the District may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Corporation, adversely affect the estate of the Corporation in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The District shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement pursuant to the provisions of the Lease Agreement under this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property.” All costs and expenses incurred in connection with such substitution or release shall be borne by the District. Notwithstanding any substitution or release pursuant to the provisions of the Lease Agreement under this heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property,” there shall be no reduction in or abatement of the Base Rental Payments due from the District under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the District shall have found, and shall have delivered a certificate to the District and the Trustee setting forth its findings, that the Property, as constituted after such substitution or release (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the District in any Rental Period, and (ii) has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release;

(b) the District shall have obtained or caused to be obtained a CLTA or an ALTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property of the type and with the endorsements described in the Lease Agreement described under the heading “INSURANCE – Title Insurance;” provided, however, that such fair market value shall have been determined by an independent certified real estate appraiser selected by the District, which appraiser shall have delivered a certificate to the District and the Trustee setting forth its findings;

(c) the District shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes;

(d) the District shall have given, or shall have made arrangements to be given, any notice of the occurrence of such substitution or release required to be given pursuant the Continuing Disclosure Certificate;

(e) the District, the Corporation and the Trustee shall have executed, and the District shall have caused to be recorded with the Santa Barbara County Recorder, any document necessary to reconvey to the District the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(f) the District shall have certified to the Corporation that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Property for which it is being substituted.

## **Miscellaneous**

Net-Net-Net Lease. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the Rental Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-off whatsoever and notwithstanding any dispute between the District and the Corporation.

Amendments. (a) The Lease Agreement and the Ground Lease, and the rights and obligations of the Corporation and the District thereunder, may be amended at any time by an amendment thereto which shall become binding upon execution by the District and the Corporation, but only with the prior written consent of the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, provided that no such amendment shall (i) extend the payment date of any Base Rental Payment, reduce the interest component or principal component of any Base Rental Payment or change the prepayment terms and provisions, without the prior written consent of the Owner of each Certificate so affected, or (ii) reduce the percentage of the aggregate amount of principal evidenced by the Certificates, the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease without the prior written consent of the Owners of all the Certificates then Outstanding.

(b) The Lease Agreement and the Ground Lease, and the rights and obligations of the District and the Corporation thereunder, may also be amended at any time by an amendment to the Lease Agreement or thereto which shall become binding upon execution by the District and the Corporation, but without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Corporation or the District to be observed or performed in the Lease Agreement or therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right or power reserved in the Lease Agreement or therein to or conferred in the Lease Agreement or therein on the Corporation or the District;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease Agreement or therein or in regard to questions arising under the Lease Agreement or thereunder that the Corporation or the District may deem desirable or necessary and not inconsistent therewith;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest components of Base Rental Payments;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement described under the heading “NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE – Substitution or Release of the Property” or

(v) to make such other changes in the Lease Agreement or therein or modifications thereto as the Corporation or the District may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners.

Assignment to Trustee; Effect. The District understands and agrees that, upon the execution and delivery of the Assignment Agreement, which is occurring simultaneously with the execution and delivery of the Lease Agreement, all right, title and interest of the Corporation in and to the Lease Agreement will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions of the Lease Agreement to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation.

Validity and Severability. If for any reason the Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Corporation or by the District, or if for any reason it is held by such a court that any of the covenants and conditions of the District under the Lease Agreement, including the covenant to pay Rental Payments, is unenforceable for the full term of the Lease Agreement, then and in such event the Lease Agreement is and shall be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the District annually in consideration of the right of the District to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Governing Law. The Lease Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.



## ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged by the Assignment Agreement, does sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation shall retain its rights under the Lease Agreement to indemnification and to payment or reimbursement of its reasonable costs and expenses. The assignment is absolute and is presently effective. All such right, title and interest so sold, assigned and transferred by the Corporation to the Trustee shall be administered by the Trustee in accordance with the provisions of the Trust Agreement, the Lease Agreement and the Ground Lease.

Acceptance. The Trustee accepts the foregoing sale, assignment and transfer, subject to the terms and provisions of the Trust Agreement, and agrees that all of the Base Rental Payments shall be applied and the right, title and interest so sold, assigned and transferred shall be exercised by the Trustee as provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Conditions. Excepting only the sale, assignment and transfer to the Trustee of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement pursuant to the provisions of the Assignment Agreement described under the heading "Assignment," the Assignment Agreement shall impose no obligations whatsoever upon the Trustee beyond those expressly provided in the Trust Agreement, the Lease Agreement and the Ground Lease.

Further Assurances. The Corporation shall make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Assignment Agreement, and for the better assuring and confirming to the Trustee, for the benefit of the owners of the Certificates, the right, title and interest intended to be sold, assigned and transferred pursuant to the Assignment Agreement.

Captions. The captions or headings in the Assignment Agreement are for convenience only and in no way define or limit the scope or intent of any provision of the Assignment Agreement.

Governing Law. The Assignment Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

## TRUST AGREEMENT

### Terms and Conditions of Certificates

Certificate Registration Books. (a) The Trustee shall keep at its Principal Office sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection and copying by the District at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement.

(b) The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate shall be made only to such Owner, which payments

shall be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Transfer and Payment of Certificates; Exchange of Certificates. Each Certificate is transferable by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, upon surrender of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Each Certificate may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount and having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period commencing on the date five days before the date of selection of Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Book-Entry System. (a) The Certificates shall initially be executed and delivered as Book-Entry Certificates and the Certificates for each stated Principal Payment Date shall be in the form of a separate single fully registered Certificate (which may be typewritten). The ownership of each Book-Entry Certificate shall be registered in the Registration Books in the name of the Nominee, as nominee of the Depository. Payment of principal or interest evidenced by any Book-Entry Certificate registered in the name of the Nominee shall be made on the applicable payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments shall be made to the Nominee at the address which is, on the Record Date, shown for the Nominee in the Registration Books.

(b) With respect to Book-Entry Certificates, the District, the Corporation and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such Book-Entry Certificates. Without limiting the immediately preceding sentence, the District, the Corporation and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any ownership interest in Book-Entry Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Registration Books, of any notice with respect to Book-Entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Certificates to be prepaid in the event Certificates are prepaid in part, (iv) the payment to any Participant or any other person, other than an Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest evidenced by Book-Entry Certificates, or (v) any consent given or other action taken by the Depository as Owner.

(c) The District and the Trustee may treat and consider the person in whose name each Book-Entry Certificate is registered in the Registration Books as the absolute Owner of such Book-Entry Certificate for the purpose of payment of principal, prepayment premium, if any, and interest evidenced by

such Certificate, for the purpose of selecting any Certificates, or portions thereof, to be prepaid, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever, and the District, the Corporation and the Trustee shall not be affected by any notice to the contrary.

(d) In the event of a prepayment of all or a portion of a Certificate, the Depository, in its discretion, (i) may request the Trustee to execute and deliver a new Certificate, or (ii) if DTC is the sole Owner of such Certificate, shall make an appropriate notation on the Certificate indicating the date and amounts of the reduction in principal evidenced thereby resulting from such prepayment, except in the case of final payment, in which case such Certificate must be presented to the Trustee prior to payment.

(e) The Trustee shall pay all principal, premium, if any, and interest evidenced by the Certificates only to or “upon the order of” (as that term is used in the Uniform Commercial Code as adopted in the State of California) the respective Owner, as shown in the Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the obligations with respect to payment of principal, premium, if any, and interest evidenced by the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Registration Books, shall receive a Certificate evidencing principal, premium, if any, and interest evidenced by the Certificates. Upon delivery by the Depository to the Owners, the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Trust Agreement with respect to Record Dates, the word Nominee in the Trust Agreement shall refer to such nominee of the Depository.

(f) In order to qualify the Book-Entry Certificates for the Depository’s book-entry system, the District shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the Corporation, the District or the Trustee any obligation whatsoever with respect to persons having interests in such Book-Entry Certificates other than the Owners, as shown on the Registration Books. Such Letter of Representations may provide the time, form, content and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the District, the District, the Corporation and the Trustee shall take such other actions, not inconsistent with the Trust Agreement, as are reasonably necessary to qualify Book-Entry Certificates for the Depository’s book-entry program.

(g) In the event the District determines that it is in the best interests of the Beneficial Owners that they be able to obtain certificated Certificates and that such Certificates should therefore be made available and notifies the Depository and the Trustee of such determination, the Depository will notify the Participants of the availability through the Depository of certificated Certificates. In such event, the Trustee shall transfer and exchange certificated Certificates as requested by the Depository and any other Owners in appropriate amounts. In the event (i) the Depository determines not to continue to act as securities depository for Book-Entry Certificates, or (ii) the Depository shall no longer so act and gives notice to the Trustee of such determination, then the District shall discontinue the Book-Entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each stated Principal Payment Date of such Book-Entry Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of the Trust Agreement described under the headings “TERMS AND CONDITIONS OF CERTIFICATES – Transfer and Payment of Certificates; Exchange of Certificates” and “ –Certificates

Mutilated, Lost, Destroyed or Stolen.” Whenever the Depository requests the District to do so, the District will cooperate with the Depository in taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Book-Entry Certificates to any Participant having Book-Entry Certificates credited to its account with the Depository, and (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Book-Entry Certificates.

(h) Notwithstanding any other provision of the Trust Agreement to the contrary, if DTC is the sole Owner of the Certificates, so long as any Book-Entry Certificate is registered in the Registration Books in the name of the Nominee, all payments of principal, premium, if any, and interest evidenced by such Certificate and all notices with respect to such Certificate shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed by the Depository.

(i) In connection with any notice or other communication to be provided to Owners pursuant to the Trust Agreement by the District, the Corporation or the Trustee, with respect to any consent or other action to be taken by Owners, the Trustee shall establish a record date for such consent or other action and give the Depository notice of such record date no later than 15 calendar days in advance of such record date to the extent possible. Notice to the Depository shall be given only when DTC is the sole Owner of the Certificates.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it shall prepare and execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Office of the Trustee in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date and number in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and disposed of in a manner deemed appropriate by the Trustee. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like principal amount and having the same stated Principal Payment Date, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the provisions of the Trust Agreement summarized in this paragraph and of the expenses which may be incurred by it under the provisions of the Trust Agreement summarized in this paragraph. Any Certificate executed and delivered under the provisions of the Trust Agreement summarized in this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates

Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of the Trust Agreement summarized in this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which evidences principal that is then payable, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the District.

### **Funds and Accounts; Rental Payments**

Pledge; Base Rental Payment Fund. (a) Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, in order to secure the District's obligations under the Trust Agreement and under the Lease Agreement, the District irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund), which amounts shall be used for the payment of the Base Rental Payments in accordance with the terms of the Trust Agreement and of the Lease Agreement. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the District, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(b) It is the intent of the parties to the Trust Agreement that the Corporation not have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. If, contrary to the intent of the parties to, the Corporation is found to have any right, title or interest in or to any such amounts, then, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, the Corporation irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund). Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Corporation, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(c) All Base Rental Payments shall be paid directly by the District to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the District shall be deposited by the Trustee in the Base Rental Payment Fund, which the Trustee shall establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in the Base Rental Payment Fund shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses in the Trust Agreement authorized. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

(d) Pursuant to the Assignment Agreement, the Corporation has sold, assigned and transferred to the Trustee, irrevocably and absolutely, for the benefit of the Owners, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive Base Rental Payments to be paid by the District under and pursuant to the Lease Agreement; provided, however, that the Corporation has retained the rights to indemnifications and to payment or reimbursement of its reasonable costs and

expenses under the Lease Agreement. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Ground Lease, the Lease Agreement or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Deposit of Base Rental Payments. The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, to the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in each of such funds shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund.* The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee shall withdraw from the Interest Fund, for payment to the Owners, the interest evidenced by the Certificates coming due on such Interest Payment Date.

(b) *Principal Fund.* The Trustee, on each Principal Payment Date and each Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. On each Principal Payment Date and each Mandatory Sinking Account Payment Date, the Trustee shall withdraw from the Principal Fund, for payment to the Owners, the principal evidenced by the Certificates due and payable on such Principal Payment Date or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund.* The Trustee, on the prepayment date specified in the Written Request of the District filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Prepayment Fund any amounts required to be deposited therein pursuant to the provisions of the Trust Agreement described under the headings “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds” or “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Title Insurance.” Moneys in the Prepayment Fund shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Certificates to be prepaid. All moneys held by the Trustee in the Prepayment Fund shall either be held uninvested or invested in Defeasance Securities, which mature in sufficient amounts and on the dates needed to make the prepayments of Certificates for which such moneys were deposited.

Application of Net Proceeds. If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of the Trust Agreement summarized under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Application of Net Proceeds,” the District shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the District elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Trust Agreement.

The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the

Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the District, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the District in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the District shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the District intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the District does intend to replace or repair the Property or portions thereof, the District shall deposit with the Trustee the full amount of any insurance deductible to be deposited to the special account.

If such damage, destruction or loss was such that there resulted a substantial interference with the District's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments would result from such damage or destruction pursuant to the provisions of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement" (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"), then the District shall be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the prepayment, as set forth in the extraordinary prepayment provisions of the Trust Agreement, in full of all the Outstanding Certificates or all of those Outstanding Certificates which would have been payable from that portion of the Base Rental Payments which would be abated as a result of the damage or destruction (disregarding, for the purpose of determining what portion of the Base Rental Payments would be so abated, the provisions of paragraph (b) of the Lease Agreement described under the heading "RENTAL PAYMENTS – Rental Abatement"). Funds to be applied to the prepayment of Certificates in accordance with clause (b) above shall be deposited in the Prepayment Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the District in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by clause (a) above or the prepayment of Certificates as required by clause (b) above, in each case as evidenced by a Written Certificate of the District to such effect, shall be paid to the District to be used for any lawful purpose. If the District is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to prepay Certificates as set forth in clause (b) above, then such proceeds shall be paid to the District to be used for any lawful purpose. In order for such proceeds to be paid to the District to be used for any lawful purpose, there must first be delivered to the Trustee a Written Certificate of the District to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments.

The proceeds of any award in eminent domain with respect to the Property shall be deposited by the Trustee in the Prepayment Fund and applied to the prepayment of Outstanding Certificates pursuant to the extraordinary prepayment provisions of the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the District determines (and sets forth in a Written Certificate of the District) that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the District under the Lease Agreement, such proceeds shall be remitted to the District and used for any lawful purpose thereof; or

(b) if the District determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and would result in an abatement in whole or in part of Rental Payments payable by the District under the Lease (disregarding, for the purpose of determining whether such an abatement would result, the provisions of paragraph (b) of the Lease Agreement described under the heading “BASE RENTAL PAYMENTS – Rental Abatement”), then the District shall, in a Written Request of the District, direct the Trustee to, and the Trustee shall, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the extraordinary prepayment provisions of the Trust Agreement.

Rebate Fund. (a) In addition to the other funds and accounts created pursuant to the Trust Agreement, the Trustee shall establish and maintain the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates pursuant to the provisions of the Trust Agreement described under the heading “DEFEASANCE” or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate. The Trustee may conclusively rely upon the District’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the District’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the principal and interest evidenced by the Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under this heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” shall be withdrawn by the Trustee and remitted to the District.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate special fund to be held by the Trustee designated the “Costs of Issuance Fund.” On the Delivery Date, there shall be deposited in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the provisions of the Trust Agreement.

(b) The Trustee shall disburse moneys from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case upon the Written Request of the District, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. On the last Business Day that is no later than six months after the Delivery Date, the Trustee shall transfer any amounts then remaining in the Costs of Issuance Fund to the Base Rental Payment Fund and the Trustee shall close the Costs of Issuance Fund.

Investments. (a) *General.* Except as otherwise provided in the Trust Agreement, all moneys in any of the funds or accounts established pursuant to the Trust Agreement and held by the Trustee shall be



invested by the Trustee solely in Permitted Investments, as directed in writing by the District two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Trust Agreement. Absent timely written direction from the District, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

(b) *Role and Responsibilities of the Trustee.* The Trustee or an affiliate thereof may act as principal or agent in the acquisition or disposition of any such Permitted Investment and shall be entitled to a customary and reasonable fee therefor. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmation to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee under the Trust Agreement. The Trustee may make any investments under the Trust Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manage in connection with any investments made by the Trustee under the Trust Agreement.

(c) *Valuation.* Investments (except investment agreements) in any fund or account established under the Trust Agreement shall be valued, exclusive of accrued interest, not less often than semi-annually no later than April 15 and October 15. All investments of amounts deposited in any fund or account established under the Trust Agreement shall be valued at the market value thereof.

(d) *Earnings.* Subject to the provisions of the Trust Agreement described under the heading “FUNDS AND ACCOUNTS; RENTAL PAYMENTS – Rebate Fund,” any interest or profits received with respect to investments held in any of the funds or accounts established under the Trust Agreement shall be retained therein.

## **Covenants**

Compliance with Trust Agreement. The Trustee will execute and deliver the Certificates only in accordance with the provisions of the Trust Agreement, and each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be complied with, kept, observed and performed by it.

Compliance with Ground Lease and Lease Agreement. Each of the Corporation and the District shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by it and, together with the Trustee, shall enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Corporation, the District and the Trustee shall faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or thereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of

California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or thereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The District will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances, and free from any claim or liability which materially impairs the District in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the District ten days' written notice to comply therewith and failure of the District to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the District from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its obligation under the Trust Agreement to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates are Outstanding, neither the Trustee or the District shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

The Trustee shall not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement.

Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or thereafter developing, shall prosecute all actions, suits or other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

Recordation. The District will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. (a) The District shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the District will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. This covenant shall survive payment in full or defeasance of the Certificates.

(b) In the event that at any time the District is of the opinion that for purposes of the provisions of the Trust Agreement described under this heading "COVENANTS – Tax Covenants," it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Trust Agreement, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the provisions of the Trust Agreement described under this heading “COVENANTS – Tax Covenants,” if the District shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under the provisions of the Trust Agreement described under this heading “COVENANTS – Tax Covenants,” is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest evidenced by the Certificates, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Trust Agreement described under this heading “COVENANTS – Tax Covenants,” and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the District and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Certificate applicable to it. Notwithstanding any other provision of the Trust Agreement, failure of the District or the Trustee to comply with the Continuing Disclosure Certificate shall not constitute an event of default under the Trust Agreement; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate amount of principal evidenced by Outstanding Certificates and upon being indemnified to its reasonable satisfaction, shall) or any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Ground Lease or the Lease Agreement.

### **Default and Limitations of Liability**

Action on Default. If an event of default (within the meaning of the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES”) shall happen, then such event of default shall constitute an event of default under the Trust Agreement. The Trustee, as assignee of the Corporation, may give notice of an event of default under the Lease Agreement to the District, and shall do so if directed in writing to do so by the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding, shall, upon being indemnified to its reasonable satisfaction and upon notice in writing to the District and the Corporation, exercise any of the remedies granted to the Corporation under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Other Remedies of the Trustee.”

Other Remedies of the Trustee. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any member, director, officer or employee thereof, and to compel the District or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or

(c) by suit in equity upon the happening of any event of default under the Trust Agreement to require the District to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY” may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Corporation and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Trust Agreement described under the heading “DEFAULT AND LIMITATIONS OF LIABILITY – Action on Default,” no remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the District to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or in the Trust Agreement, the District shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability of the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the Corporation or the District of the other agreements and covenants required to be performed by them, respectively, contained in the Lease Agreement, the Ground Lease or in the Trust Agreement.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the District pursuant to the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES” (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Corporation’s right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the provisions of the Lease Agreement described under the heading “DEFAULTS AND REMEDIES,” shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the provisions of the Trust Agreement described under the heading “THE TRUSTEE – Compensation and Indemnification;”

(b) to the payment of all amounts then due for interest evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest evidenced by such Certificates due and payable; and

(c) to the payment of all amounts then due for principal evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal evidenced by such Certificates due and payable.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing event of default, (b) the Owners of not less than 25% of the aggregate amount of principal evidenced by Certificates then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Trust Agreement, (c) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate amount of principal evidenced by Certificates then Outstanding; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing

of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided and for the equal and ratable benefit of all the Owners of Certificates.

## **The Trustee**

Duties and Liabilities of Trustee. The Trustee shall, prior to an event of default, and after the curing or waiver of all events of default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any event of default which has not been cured or waived, exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Qualifications; Removal and Resignation; Successors. (a) The Trustee initially a party to the Trust Agreement and any successor thereto shall at all times be a trust company, national banking association or bank having trust powers in good standing in or incorporated under the laws of the United States or any state thereof, having (or if such trust company, national banking association or bank is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by a federal or state agency. If such trust company, national banking association or bank publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such trust company, national banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) The District may, by an instrument in writing, upon at least 30 days' notice to the Trustee, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an event of default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (i) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the aggregate amount of principal evidenced by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (a) above, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(c) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the District and to the Owners at the respective addresses shown on the Registration Books. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of paragraph (a) above, the Trustee shall resign immediately in the manner and with the effect specified in the Trust Agreement described under this heading "THE TRUSTEE – Qualifications; Removal and Resignation; Successors."

(d) Upon removal or resignation of the Trustee, the District shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in paragraph (a) above. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any

Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the District, the Corporation and its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless at the written request of the District, the Corporation or the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement set forth. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Trust Agreement to the Owners at the addresses shown on the Registration Books.

(e) Any trust company, national banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, national banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, national banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such trust company, national banking association or bank shall be eligible under paragraph (a) above, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Trust Agreement to the contrary notwithstanding.

Liabilities of the Trustee. (a) The recitals of facts in the Trust Agreement shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same. The Trustee shall, however, be responsible for its representations contained in the Certificates.

(b) The Trustee makes no representations as to the validity or sufficiency of the Trust Agreement, the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or in respect of the security afforded by the Trust Agreement, and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the delivery of the Certificates for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the District or others in accordance with the Trust Agreement, except as to the application of any moneys paid to it in its capacity as Trustee.

(c) The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct.

(d) No provision of the Trust Agreement or any other document related thereto shall require the Trustee to risk or advance its own funds.

(e) The Trustee may execute any of its powers or duties under the Trust Agreement through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(h) Before taking action under the provisions of the Trust Agreement described under the headings "DEFAULT AND LIMITATIONS OF LIABILITY," "THE TRUSTEE" or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate amount of principal evidenced by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

(j) The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority in aggregate amount of principal evidenced by the Certificates then Outstanding.

(k) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

(l) The Trustee shall not be liable for the failure to take any action required to be taken by it under the Trust Agreement if and to the extent that the Trustee's taking such action is prevented by reason of an act of God, terrorism, war, riot, strike, fire, flood, earthquake, epidemic or other, similar occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care.

(m) The Trustee shall not be deemed to have knowledge of an event of default under the Trust Agreement unless it has actual knowledge thereof.

(n) The permissive right of the Trustee to do things enumerated in the Trust Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

(o) The Trustee shall not be responsible for or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Trust Agreement.

Right to Rely on Documents and Opinions. (a) The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by the Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be in the Trust



Agreement specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the District, and such Written Certificate of the District shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Trust Agreement in reliance upon such Written Certificate of the District, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(c) The Trustee may consult with counsel, who may be counsel to the District or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Certificates, the Base Rental Payments received by it and all funds and accounts established by it pursuant to the Trust Agreement. Such books of record and account shall be available for inspection by the District and the Corporation during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the District a monthly accounting of the funds and accounts it holds under the Trust Agreement; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero, and (b) has not had any activity since the last reporting date.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement shall be retained in its possession and shall be subject during business hours and upon reasonable notice to the inspection of the District, the Corporation, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation pursuant to a pre-approved fee letter for all services rendered under the Trust Agreement, and also all reasonable expenses, charges, legal and consulting fees pursuant to a pre-approved fee letter and other disbursements pursuant to a pre-approved fee letter and those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Trust Agreement. The District shall, to the extent permitted by law, indemnify and save the Trustee harmless against any costs, claims, expenses (including fees and expenses of its counsel), and liabilities which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the District to indemnify the Trustee shall survive the resignation or removal of the Trustee and the termination and discharge of the Trust Agreement.

### **Amendment of or Supplement to Trust Agreement**

Amendment or Supplement. (a) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding when the prior written consents of the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Disqualified Certificates,” are filed with the Trustee. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Certificate or reduce the rate of interest applicable to the interest evidenced thereby or extend the time of payment of such interest or reduce the amount of principal evidenced thereby or reduce the amount of any Mandatory

Sinking Account Payment or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Certificate so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Trust Agreement prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Trust Agreement or deprive the Owners of the pledge contained in, and the lien and security interest created by, the Trust Agreement, except as expressly provided in the Trust Agreement, without the consent of the Owners of all of the Certificates then Outstanding, (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend the provisions of the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Amendment or Supplement” without the prior written consent of the Owners of all Certificates then Outstanding.

(b) The Trust Agreement and the rights and obligations of the District, the Corporation, if any, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding upon execution, without the written consents of any Owners and but only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the District to be observed or performed in the Trust Agreement other agreements, conditions, covenants and terms thereafter to be observed or performed by the District, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the District;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the District may deem desirable or necessary and not inconsistent therewith;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates; or

(iv) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Owners; provided, however, that the District and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this paragraph have been met with respect to such amendment or supplement.

The Trustee is not obligated to enter into any amendment or supplement that adversely affects the rights or obligations of the Trustee.

Disqualified Certificates. Certificates owned or held by or for the account of the District (but excluding Certificates held in any pension or retirement fund of the District) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and shall not be entitled to consent to or take any other action provided in the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT,” and the Trustee may adopt appropriate regulations to require each Owner, before its consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement described under this heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT – Endorsement or Replacement of Certificates After Amendment or Supplement,” the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Certificate for such purpose at the Principal Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The provisions of the Trust Agreement described under the heading “AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT” shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by such Owner, provided that due notation thereof is made on such Certificates.

## **Defeasance**

Discharge of Trust Agreement. (a) If there shall be paid (i) to the Owners of all Outstanding Certificates the principal, interest and premium, if any, evidenced thereby at the times and in the manner stipulated in the Trust Agreement, and (ii) all other amounts due under the Trust Agreement and under the Lease Agreement, then the Owners shall cease to be entitled to the pledge of the assets provided for in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall thereupon cease, terminate and become void and the Trust Agreement shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the principal, interest and premium, if any, evidenced by the Certificates.

(b) Subject to the provisions of paragraph (a) above, when any Certificate shall have been paid and if, at the time of such payment, each of the Corporation and the District shall have kept, performed and observed all of the covenants and promises in the Trust Agreement and the Lease Agreement required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Trust Agreement shall be considered to have been discharged in respect of such Certificate and such Certificate shall cease to be entitled to the pledge of the assets provided in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the District under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied as to such Certificate.

(c) Notwithstanding the discharge and satisfaction of the Trust Agreement or the discharge and satisfaction of the Trust Agreement in respect of any Certificate, those provisions of the Trust Agreement relating to the payment of the principal, interest and premium, if any, evidenced by Certificates, exchange and transfer of Certificates, replacement of mutilated, destroyed, lost or stolen Certificates, the safekeeping and cancellation of Certificates, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Certificate, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal, interest and premium, if any, evidenced by such Certificate, and to pay to the Owner of such Certificate the funds so held by the Trustee as and when such payment becomes due.

Certificates Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or prepayment of the principal evidenced by any Certificate and the payment of the interest evidenced thereby to the stated Principal Payment Date or prepayment date thereof, such Certificate shall be deemed to have been paid within the meaning and with the effect provided in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement.” Any Outstanding Certificate shall prior to its stated Principal Payment Date or the prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in the provisions of the Trust Agreement described under the heading “DEFEASANCE – Discharge of Trust Agreement,” if (i) in case any of such Certificates is to be prepaid on any date prior to its stated Principal Payment Date, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Trust Agreement related to prepayment notices, notice of prepayment of such Certificate on said prepayment date, said notice to be given in accordance with the provisions of the Trust Agreement related to prepayment notices, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the interest evidenced by such Certificate to become due on and prior to its stated Principal Payment Date or the prepayment date thereof, as the case may be, and the principal and premium, if any, evidenced by such Certificate, and (iii) in the event such Certificate is not by its terms subject to prepayment within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Certificate that the deposit required by clause (ii) above has been made with the Trustee and that such Certificate is deemed to have been paid in accordance with the provisions of the Trust Agreement described under this heading “DEFEASANCE – Certificate Deemed To Have Been Paid,” and stating stated Principal Payment Date or prepayment date upon which money is to be available for the payment of the principal and premium, if any, evidenced by such Certificate.

(b) No Certificate shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) above unless the District shall have caused to be delivered to the District and the Trustee (A) an executed copy of a Verification Report with respect to such deemed payment, addressed to the District and the Trustee, in form and in substance acceptable to the District and the Trustee, (B) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) above resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (C) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the District and the Trustee, in form and in substance acceptable to the District and the Trustee, to the effect that such Certificate has been paid within the meaning and with the effect expressed in the Trust Agreement, the Trust Agreement has been discharged in respect of such Certificate and all agreements, covenants and other obligations of the District and the Corporation under the Trust Agreement as to such Certificate have ceased, terminated, become void and been completely discharged and satisfied.

Unclaimed Moneys. Subject to the escheat laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal evidenced by any of the Certificates which remain unclaimed for two years after the date when such interest or principal evidenced by such Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal evidenced by such Certificates have become payable, shall, at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal evidenced by such Certificates.

## **Miscellaneous**

Benefits of Trust Agreement. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Trustee, the Corporation, the District and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the Trustee, the Corporation, the District and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Trustee, the Corporation or the District, or any officer thereof, is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Trustee, the Corporation or the District, or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the Trustee, the Corporation or the District, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer or employee of the District shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal evidenced by the Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Trust Agreement.

Acquisition of Certificates by District. All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Written Certificate of the District and every Written Certificate of the Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person making or giving such certificate has read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based, (c) a statement that, in the opinion of the signer, the

signer has made or caused to be made such examination or investigation as is necessary to enable the signer to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with, and (d) a statement as to whether, in the opinion of the signer, such agreement, condition, covenant or term has been complied with.

Any Written Certificate of the District and any Written Certificate of the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which each person's certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information which is in the possession of the District or the Corporation upon a representation by an officer or officers of the District or the Corporation, as the case may be, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which such counsel's opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Funds and Accounts. Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners.

The Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Governing Law. The Trust Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

**APPENDIX B**

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

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

# SANTA MARIA-BONITA SCHOOL DISTRICT

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***FINANCIAL SECTION***

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

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Santa Maria-Bonita School District  
Santa Maria, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Maria-Bonita School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Maria-Bonita 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 - Change in Accounting Principles***

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

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 66, schedule of changes in the District's total OPEB liability and related ratios on page 67, schedule of the District's proportionate share of the net pension liability on page 68, and the schedule of District contributions on page 69, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Maria-Bonita School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the Santa Maria-Bonita 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 Santa Maria-Bonita 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 Santa Maria-Bonita School District's internal control over financial reporting and compliance.

*Varinuk, Trine, Day + Co. LLP*

Fresno, California  
December 3, 2018



# SANTA MARIA-BONITA SCHOOL DISTRICT

708 South Miller Street, Santa Maria, CA 93454-6230, (805) 361-8132

## Management and Discussion Analysis

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This section of the Santa Maria-Bonita School District (the District) annual financial report presents our discussion and analysis of the District's financial activities and performance during the fiscal year that ended on June 30, 2018. Please read this section in conjunction with the District's financial statements which immediately follow this section.

### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

#### ***The Financial Statements***

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. The District has no business-type activities. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

The *Fund Financial Statements* include statements for three categories of activities:

The *Governmental Funds* are prepared using the current resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are reported in the same way as the government-wide statements.

The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

*Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements* are provided to explain the differences created by the integrated approach.

The primary unit of the government is the Santa Maria-Bonita School District.

### ***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- At the State of California level:
  - Most economic indicators remain positive.
  - The strength of the dollar and the weakening of the Euro and Pound have strengthened California's position among the world's top economies.
  - The State has experienced continued strengthening of the housing market.



# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS

JUNE 30, 2018

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- At the Santa Maria-Bonita School District level:
  - Unlike most districts in the state, the District continues to grow. Growth for 2017-18 was 1.5%, or 254 students from the previous year for total enrollment of 17,122 students.
  - The District continued to maintain a 3% Reserve for Economic Uncertainties as required under AB1200 and has received a positive certification from the County Office of Education for the current and next two fiscal years.
  - Developer/Mitigation fee collections received were \$2,037,968. Growth in the economy, a stabilization and increase in home sales prices and continued low interest rates are all factors leading to developer's apparent interest in returning to pursuing new construction albeit at a very slow pace compared to pre-recession years.

### **REPORTING THE DISTRICT AS A WHOLE**

#### *The Statement of Net Assets and the Statement of Activities and Changes in Net Assets*

The *Statement of Net Assets and the Statement of Activities and Changes in Net Assets* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities and Changes in Net Position*, we report the District activities as follows:

**Governmental activities** – all District services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as leases and certificates of participation, finance these activities.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

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### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental funds** – Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

### ***THE DISTRICT AS TRUSTEE***

#### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate *Statement of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

### THE DISTRICT AS A WHOLE

The District's net position was \$104.6 million for the fiscal year ended June 30, 2018 and \$107.5 million for the fiscal year ended June 30, 2017, a decrease of \$2.8 million. Of this amount, \$25.4 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use net position for day-to-day activities. Most activities in the District maintained a balance with the resource provided. Net position was restated for the fiscal year ended June 30, 2017 due to the implementation of GASB 75. The table below illustrates the District's Net Assets as of June 30, 2018 and 2017.

#### Net Position As of June 30, 2018 and 2017

	June 30, 2018	June 30, 2017, as restated	Difference
Current and Other Assets	\$ 106,109,726	\$ 113,320,650	\$ (7,210,924)
Accounts Receivable	17,995,454	22,751,325	(4,755,871)
Net Capital Assets	200,839,659	189,436,741	11,402,918
<b>Total Assets</b>	<b>\$ 324,944,839</b>	<b>\$ 325,508,716</b>	<b>\$ (563,877)</b>
<b>Deferred Outflows</b>	<b>\$ 61,463,499</b>	<b>\$ 42,888,870</b>	<b>18,574,629</b>
Current Liabilities	\$ 18,937,378	\$ 21,377,949	\$ (2,440,571)
Long-Term Debt:			
Due within one year	2,471,968	3,062,563	(590,595)
Due after one year	81,997,276	83,819,711	(1,822,435)
Net Pension Liability	169,907,678	146,311,415	23,596,263
<b>Total Liabilities</b>	<b>\$ 273,314,300</b>	<b>\$ 254,571,638</b>	<b>\$ 18,742,662</b>
<b>Deferred Inflows</b>	<b>\$ 8,488,940</b>	<b>\$ 6,373,310</b>	<b>2,115,630</b>
Net Position			
Invested in capital assets, net of related debt	\$ 156,213,207	\$ 150,271,284	\$ 5,941,923
Restricted	25,372,912	27,222,545	(1,849,633)
Unrestricted	(76,981,021)	(70,041,191)	(6,939,830)
<b>Total Net Position</b>	<b>\$ 104,605,098</b>	<b>\$ 107,452,638</b>	<b>\$ (2,847,540)</b>

A portion of the District's revenues are generated from property taxes. One way to understand the stability of this financial stream is to analyze concentrations reported in the top twenty-five taxpayers.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

In the chart below, the top twenty five taxpayers within the District boundaries comprise less than 11.9% of the District's overall assessed valuation which indicates more stability for the District's property tax revenue stream and indicates a lower risk.

### Largest 25 Taxpayers in the School District as of June 30, 2018

<u>Taxpayer</u>	<u>Net Assessed Value</u>	<u>Tax Paid</u>
WINDSET FARMS CALIFORNIA , INC	\$170,704,560	\$1,932,230
OKONITE COMPANY INC	\$105,385,937	\$1,190,753
KW BRADLEY SQUARE, LLC	\$49,083,085	\$628,712
SANTA MARIA LAND PARTNERS, LLC	\$46,365,660	\$528,603
MGP 50, LLC	\$42,987,405	\$502,114
HT PARTNERS, LP	\$41,398,454	\$531,039
PINI, DARIO L	\$37,724,173	\$427,481
333 EAST ENOS DRIVE OWNER LLC	\$36,987,200	\$440,759
SIENA AT WESTGATE, L P	\$31,618,983	\$428,381
BROADWAY PAVILION STATION LLC	\$29,172,000	\$330,712
BETTERAVIA INVESTMENTS LLC	\$28,907,827	\$330,919
ERGS XIV REO OWNER, LLC	\$28,560,699	\$323,814
LINEAGE MASTER RE 3, LLC	\$25,300,662	\$287,976
THE PICTSWEET COMPANY	\$24,953,033	\$285,279
ISTORAGE PO, LLC	\$21,259,600	\$243,111
YIPSM OWNER, LLC	\$21,000,000	\$237,681
LYON SANTA MARIA, LLC	\$20,675,996	\$271,486
OSR/PIM COOLER PARTNERS, LLC	\$19,762,275	\$222,998
CALPORTLAND CONSTRUCTION	\$18,851,148	\$216,994
ARBOR RIDGE	\$18,350,363	\$230,594
BAPA LIMITED PARTNERSHIP	\$18,081,775	\$205,694
SANTA MARIA BROADWAY PLAZA II, LLC	\$17,775,681	\$203,165
DRISCOLL STRAWBERRY ASSOCIATES, INC	\$16,636,556	\$189,672
CARMEN APARTMENT PARTNERS TIC I, LLC	\$16,265,199	\$184,543
SIERRA EQUITIES INC	\$15,519,822	\$175,975
<b>Total Top 25 Taxpayers</b>	<b>\$903,328,093</b>	<b>\$10,550,685</b>

The District's enrollment has a direct correlation to the amount of staffing needed to support students. The growth in enrollment has caused the District's total Full-Time Equivalent (FTE) to increase. The table below illustrates the District's staffing trend as of June 30, 2018.

### Historical Staffing Trend For the Five Fiscal Years ended June 30, 2018

	<u>Certificated FTE</u>	<u>Classified FTE</u>	<u>Management FTE</u>	<u>Total</u>
2017-18	871	613	80	1,564
2016-17	855	596	79	1,530
2015-16	762	501	74	1,337
2014-15	708	437	69	1,214
2013-14	683	397	64	1,144

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

### Governmental Activities

Historically, the District has managed the State budget cuts over the course of the last several years by closely monitoring the deterioration of the State budget. Over the last five years with the implementation of the Local Control Funding Formula, revenues have increased to the District. Conservative spending and a proactive approach by the District's Superintendent and Board of Education have ensured that the District will continue to maintain fiscal solvency currently and the next two fiscal years, as certified by the Santa Barbara County Office of Education. The following table illustrates a summary of revenues by program.

### **Changes in Net Position - Revenue Comparison June 30, 2018 Compared with June 30, 2017**

	June 30, 2018	June 30, 2017	Difference
Charges for Service	\$ 43,325	\$ 47,066	\$ (3,741)
Operating Grants and Contributions	44,454,067	39,129,551	5,324,516
Capital Grants and Contributions	32,941	10,113	22,828
Federal and State Aid not Restricted for to Specific Purposes	141,590,376	137,171,316	4,419,060
Property Taxes for General Purposes	36,664,626	32,459,692	4,204,934
Property Taxes for Debt Service	2,175,246	2,023,275	151,971
Other General Revenues	4,618,099	10,494,291	(5,876,192)
<b>Total</b>	<b>\$ 229,578,680</b>	<b>\$ 221,335,304</b>	<b>\$ 8,243,376</b>

District revenues for governmental activities have increased by \$8.2 million. Charges for Service arise primarily from sales out of the cafeteria. Operating Grants and Contributions revenue comes from restricted funding sources and has increased as a result of numerous one-time specific dollars from State sources. Capital Grants and Contributions revenue is comprised of apportionments received for construction projects. These revenues can decrease as facility projects are completed over time.

Federal and State Aid Not Restricted for a Specific Purpose and Property Taxes are primarily the result of the Local Control Funding Formula (LCFF) calculation. The combination of these two line items increased due to enrollment growth and increased funding from LCFF. For the year ended June 30, 2018, the District's net funded LCFF revenue per average daily attendance was \$10,077. Average daily attendance at P-2 was 16,607 (including District funded county programs).

Other general revenues are primarily developer fees, mitigation fees, interest income and site generated funds, which have decreased.

Increases and decreases in local property tax values bear heavily on the District's dependence on State Aid. Therefore, increases in the assessed valuation of property within the boundaries of the District are of particular interest. Assessed valuations of property within the District boundaries at June 30, 2018, were as follows:

### **Historical Assessed Valuations For the Five Fiscal Years ended June 30, 2018**

	Local Secured	State Secured	Unsecured	Total
2017-18	\$ 7,580,381,755	\$ -	\$ 633,682,072	\$ 8,214,063,827
2016-17	7,051,467,649	-	594,039,662	7,645,507,311
2015-16	6,689,921,261	-	514,977,957	7,204,899,218
2014-15	6,333,105,810	-	485,979,554	6,819,085,364
2013-14	6,026,975,605	-	471,702,318	6,498,677,923

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

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Funding for the District's governmental activities came in the form of grants and entitlements from other government organizations to support certain programs in the amount of \$44.5 million; from local property taxes in the amount of \$38.8 million; and \$146.2 million from State aid and other miscellaneous revenues.

The following table illustrates a summary of expenditures by function.

### Changes in Net Position - Expense Comparison June 30, 2018 Compared with June 30, 2017

	June 30, 2018	June 30, 2017	Difference
Instruction Related	\$ 165,797,291	\$ 160,839,668	\$ 4,957,623
Student Support Services	16,567,257	14,580,240	1,987,017
Administration	8,320,504	8,293,433	27,071
Maintenance and Operations	19,949,128	17,724,882	2,224,246
Food Services	10,598,757	10,522,728	76,029
Other	11,193,283	2,682,501	8,510,782
Total	<u>\$ 232,426,220</u>	<u>\$ 214,643,452</u>	<u>\$ 17,782,768</u>

### ***THE DISTRICT'S FUNDS***

#### General Fund Budgetary Highlights

Over the course of the fiscal year, major revisions are submitted to the Board of Education at First Interim (October 31) and Second Interim (January 31) for their review and approval. These changes include:

- Changes imposed by the State adding new grants as well as updating grant estimates to award letters
- Revising estimates for utilities, transportation and professional services
- Additions of new staffing for unanticipated growth and elimination of vacated positions
- Revisions for enrollment and ADA changes

Landmark legislation passed in 2013 reformed California school district finance by creating the Local Control Funding Formula (LCFF). Fiscal year 2017-2018 marked the fifth year of a projected eight year implementation of LCFF. The District continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF provides a per pupil base grant amount, by grand span, that is augmented by supplemental and concentration grant funding for targeted students groups in low income brackets, those that are English language learners and foster youth. The Local Control and Accountability Plan (LCAP) serves as the primary tool in aligning the District's local effort to ensure continuous improvement in all areas of student achievement and program effectiveness. The LCAP highlights how the supplemental and concentration grant funding is budgeted and spent to achieve the District goals.

Proposition 55, approved by voters in November 2016, temporarily increased personal income tax rates on high-income taxpayers until 2030. At the time, proposition 55 extended the expiring proposition 30 income tax rates. This tax revenue generates an estimated \$22.9 million in annual revenue for the District.

The District reported combined fund balance in its governmental and internal service funds is \$105.3 million, which is lower than the prior year's ending balance of \$114.8 million. The table below illustrates the District's fund balances compared to the prior fiscal year. The decrease in the Building Fund is a result of the District spending Measure T bond funds.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**MANAGEMENT AND DISCUSSION ANALYSIS  
JUNE 30, 2018**

**Summary of Fund Balances  
June 30, 2018 Compared with June 30, 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Difference</u>
General Fund	\$ 49,687,430	\$ 49,250,865	\$ 436,565
Child Development Fund	-	-	-
Cafeteria Fund	4,742,429	3,990,208	752,221
Deferred Maintenance Fund	502,577	580,442	(77,865)
Building Fund	18,242,873	26,146,189	(7,903,316)
Capital Facilities Fund	6,846,690	5,200,753	1,645,937
County Schools Facilities Fund	780,507	5,292,106	(4,511,599)
Special Reserve Capital Outlay Fund	8,437,176	9,990,146	(1,552,970)
COP Capital Projects Fund	3,735,379	3,690,808	44,571
Bond Interest and Redemption Fund	4,506,681	3,568,301	938,380
COP Debt Service Fund	737,159	715,043	22,116
<b>Total Governmental Funds</b>	<b>98,218,901</b>	<b>108,424,861</b>	<b>(10,205,960)</b>
Self Insurance Fund	7,068,701	6,395,300	673,401
<b>Total Governmental Activities</b>	<b>\$ 105,287,602</b>	<b>\$ 114,820,161</b>	<b>\$ (9,532,559)</b>

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The District's investments include land, buildings and capital equipment. There are 20 school sites, a maintenance facility and the District central office building. The following table summarizes the District's assets by classification.

**Capital Assets  
June 30, 2018 Compared with June 30, 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Difference</u>
Land	\$ 34,359,554	\$ 28,461,231	\$ 5,898,323
Improvement of Sites	8,169,992	7,796,468	373,524
Buildings	204,258,704	204,201,089	57,615
Equipment	9,198,423	9,083,401	115,022
Construction In Progress	17,466,720	6,775,790	10,690,930
Less: Accumulated Depreciation	(72,613,734)	(66,881,238)	(5,732,496)
<b>Total</b>	<b>\$ 200,839,659</b>	<b>\$ 189,436,741</b>	<b>\$ 11,402,918</b>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## MANAGEMENT AND DISCUSSION ANALYSIS JUNE 30, 2018

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### Long-Term Obligations

The District's Long-Term Obligations have decreased by \$2.4 million. This is largely due to the paying down of principle on the Certificates of Participation. The District continues to make all principal and interest payments as scheduled. The 2017 Other Postemployment Benefits balance was restated due to the implementation of GASB Statement No. 75. The following table represents long-term debt as compared to the prior year.

### Summary of Outstanding Debt June 30, 2018 Compared with June 30, 2017

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	June 30, 2018	June 30, 2017, as restated	Difference
General Obligation Bonds Payable	\$ 31,818,790	\$ 31,886,153	\$ (67,363)
Certificates of Participation	34,722,914	36,990,301	(2,267,387)
Capital Leases			-
Other General Long Term Debt-Loans Payable	63,000	126,000	(63,000)
Other General Long Term Debt-Early Retirement	632,500	906,176	(273,676)
Compensated Absences	98,302	79,124	19,178
Other Postemployment Benefits	17,133,738	16,894,520	239,218
<b>Total</b>	<b>\$ 84,469,244</b>	<b>\$ 86,882,274</b>	<b>\$ (2,413,030)</b>

### ***ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE***

The State of California continues to slowly come back from the recent economic struggle. With the Local Control Funding Formula (LCFF) as the vehicle to fund schools, the District is showing an increase in funding from the prior year. The Board of Education, the Superintendent and his cabinet are firm in their conservative approach to budgeting and spending in order to ensure the District's ability to remain fiscally solvent. This is a task they have accomplished without sacrificing the educational standards of the Santa Maria-Bonita School District, an undertaking to be proud of with so many school districts experiencing fiscal crisis. As a result of LCFF and the Local Control Accountability Plan (LCAP), the District is hopeful to increase services as a result of an anticipated increase in funding in future years.

### ***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

This report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to show accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact Matt Beecher, Assistant Superintendent for Business Services, 708 S. Miller Street, Santa Maria, CA 93454.



**SANTA MARIA-BONITA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 105,572,982
Receivables	17,995,454
Prepaid expenses	290,609
Stores inventories	246,135
Nondepreciable capital assets	51,826,274
Capital assets being depreciated	221,627,119
Accumulated depreciation	(72,613,734)
<b>Total Assets</b>	<b>324,944,839</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	982,344
Deferred outflows of resources related to pensions	60,481,155
<b>Total Deferred Outflows of Resources</b>	<b>61,463,499</b>
<b>LIABILITIES</b>	
Accounts payable	18,684,244
Accrued interest payable	119,800
Unearned revenue	133,334
Long-term obligations:	
Current portion of long-term obligations other than pensions	2,471,968
Noncurrent portion of long-term obligations other than pensions	81,997,276
<b>Total Long-Term Obligations</b>	<b>84,469,244</b>
Aggregate net pension liability	169,907,678
<b>Total Liabilities</b>	<b>273,314,300</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	8,488,940
<b>NET POSITION</b>	
Net investment in capital assets	156,213,207
Restricted for:	
Debt service	5,124,040
Capital projects	7,991,625
Educational programs	7,696,788
Other activities	4,560,459
Unrestricted	(76,981,021)
<b>Total Net Position</b>	<b>\$ 104,605,098</b>

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 139,422,565	\$ -	\$ 21,509,635	\$ 32,941
Instruction-related activities:				
Supervision of instruction	11,430,518		3,329,969	
Instructional library, media, and technology	3,228,684	-	586,055	-
School site administration	11,715,524	-	439,525	-
Pupil services:				
Home-to-school transportation	3,811,756	-	8,229	
Food services	10,598,757	39,939	11,300,926	-
All other pupil services	12,755,501	-	2,424,828	-
Administration:				
Data processing	1,580,715	-	-	-
All other administration	6,739,789	1,564	1,192,575	-
Plant services	19,949,128	1,822	1,057,709	-
Ancillary services	119,709	-	5,595	-
Community services	21,868	-	132,852	-
Interest on long-term obligations	2,478,062	-	-	-
Other outgo	8,573,644	-	2,466,169	-
<b>Total Governmental Activities</b>	<b>\$ 232,426,220</b>	<b>\$ 43,325</b>	<b>\$ 44,454,067</b>	<b>\$ 32,941</b>
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
<b>Subtotal, General Revenues</b>				
<b>Change in Net Position</b>				
Net Position - Beginning as Restated				
Net Position - Ending				

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

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<b>Net (Expenses)</b> <b>Revenues and</b> <b>Changes in</b> <b>Net Position</b>
<b>Governmental</b> <b>Activities</b>
\$ (117,879,989)
(8,100,549)
(2,642,629)
(11,275,999)
(3,803,527)
742,108
(10,330,673)
(1,580,715)
(5,545,650)
(18,889,597)
(114,114)
110,984
(2,478,062)
(6,107,475)
<u>(187,895,887)</u>
36,664,626
2,175,246
141,590,376
789,345
3,828,754
<u>185,048,347</u>
(2,847,540)
107,452,638
<u>\$ 104,605,098</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 50,290,910	\$ 18,611,152	\$ 29,502,123
Receivables	16,078,430	69,494	1,826,725
Due from other funds	648,330	-	335,780
Prepaid expenditures	230,898	-	59,711
Stores inventories	64,165	-	181,970
<b>Total Assets</b>	<b>\$ 67,312,733</b>	<b>\$ 18,680,646</b>	<b>\$ 31,906,309</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 17,284,498	\$ 437,773	\$ 841,072
Due to other funds	335,780	-	648,330
Unearned revenue	5,025	-	128,309
<b>Total Liabilities</b>	<b>17,625,303</b>	<b>437,773</b>	<b>1,617,711</b>
<b>Fund Balances:</b>			
Nonspendable	303,433	-	241,681
Restricted	7,696,788	18,242,873	21,531,303
Committed	-	-	502,577
Assigned	35,479,209	-	8,013,037
Unassigned	6,208,000	-	-
<b>Total Fund Balances</b>	<b>49,687,430</b>	<b>18,242,873</b>	<b>30,288,598</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 67,312,733</b>	<b>\$ 18,680,646</b>	<b>\$ 31,906,309</b>

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

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**Total  
Governmental  
Funds**

\$ 98,404,185  
17,974,649  
984,110  
290,609  
246,135  
\$ 117,899,688

\$ 18,563,343  
984,110  
133,334  
19,680,787

545,114  
47,470,964  
502,577  
43,492,246  
6,208,000  
98,218,901

\$ 117,899,688

# SANTA MARIA-BONITA SCHOOL DISTRICT

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

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 98,218,901</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 273,453,393	
Accumulated depreciation is	<u>(72,613,734)</u>	
Net Capital Assets		200,839,659
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(119,800)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		7,068,701
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	15,140,367	
Net change in proportionate share of net pension liability	12,218,010	
Difference between projected and actual earnings on pension plan investments	1,278,234	
Differences between expected and actual experience in the measurement of the total pension liability.	1,815,473	
Changes of assumptions	<u>30,029,071</u>	
Total Deferred Outflows of Resources Related to Pensions		60,481,155

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

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

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Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	\$ (2,193,887)	
Difference between projected and actual earnings on pension plan investments	(3,541,019)	
Differences between expected and actual experience in the measurement of the total pension liability.	(2,318,987)	
Changes of assumptions	<u>(435,047)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (8,488,940)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.

982,344

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

(169,907,678)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

General obligation bonds (including premiums)	31,818,790	
Certificates of participation	34,722,914	
State preschool revolving loans	63,000	
Early retirement obligations	632,500	
Compensated absences	98,302	
Other postemployment benefits (OPEB) liability	<u>17,133,738</u>	
Total Long-Term Obligations		<u>(84,469,244)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u>\$ 104,605,098</u></b>

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

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

	<b>General Fund</b>	<b>Building Fund</b>
<b>REVENUES</b>		
Local Control Funding Formula	\$ 170,125,108	\$ -
Federal sources	14,172,542	-
Other State sources	15,790,408	-
Other local sources	7,199,621	279,282
<b>Total Revenues</b>	<b>207,287,679</b>	<b>279,282</b>
<b>EXPENDITURES</b>		
Current		
Instruction	127,006,726	-
Instruction-related activities:		
Supervision of instruction	10,733,723	-
Instructional library, media and technology	3,113,048	-
School site administration	11,120,857	-
Pupil services:		
Home-to-school transportation	3,734,175	-
Food services	4,185	-
All other pupil services	12,299,493	-
Administration:		
Data processing	1,072,076	-
All other administration	5,957,539	-
Plant services	17,684,589	8,296
Ancillary services	112,622	-
Community services	22,228	-
Other outgo	8,573,644	-
Facility acquisition and construction	-	8,174,302
Debt service		
Principal	63,000	-
Interest and other	-	-
<b>Total Expenditures</b>	<b>201,497,905</b>	<b>8,182,598</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>5,789,774</b>	<b>(7,903,316)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	-
Transfers out	(5,353,209)	-
<b>Net Financing Sources (Uses)</b>	<b>(5,353,209)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>436,565</b>	<b>(7,903,316)</b>
<b>Fund Balance - Beginning</b>	<b>49,250,865</b>	<b>26,146,189</b>
<b>Fund Balance - Ending</b>	<b>\$ 49,687,430</b>	<b>\$ 18,242,873</b>

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



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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 654,208	\$ 170,779,316
11,277,513	25,450,055
2,684,049	18,474,457
5,807,517	13,286,420
<u>20,423,287</u>	<u>227,990,248</u>
1,951,551	128,958,277
248,843	10,982,566
-	3,113,048
21	11,120,878
-	3,734,175
10,516,633	10,520,818
7,980	12,307,473
-	1,072,076
567,148	6,524,687
1,603,900	19,296,785
-	112,622
-	22,228
-	8,573,644
8,867,845	17,042,147
2,267,387	2,330,387
2,484,397	2,484,397
<u>28,515,705</u>	<u>238,196,208</u>
<u>(8,092,418)</u>	<u>(10,205,960)</u>
5,353,209	5,353,209
-	(5,353,209)
<u>5,353,209</u>	<u>-</u>
(2,739,209)	(10,205,960)
33,027,807	108,424,861
<u>\$ 30,288,598</u>	<u>\$ 98,218,901</u>

**SANTA MARIA-BONITA 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**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (10,205,960)**  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 17,135,414	
Depreciation expense	(5,732,496)	
Net Expense Adjustment		11,402,918

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, there were special termination paid in excess of benefits earned in the amount of \$273,676. Vacation earned was more than the amounts paid by \$19,178.

254,498

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

(8,119,608)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.

743,126

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Certificates of participation	2,267,387
State preschool revolving loans	63,000

In the government-wide financial statements, debt premiums are deferred and amortized over the life of the debt using the straight line method.

Amortization of debt premiums	67,363
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The accompanying notes are an integral part of these financial statements.

**SANTA MARIA-BONITA 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**

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

\$ 6,335

An internal service fund is used by the District's management to charge the costs of certain insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

673,401

**Change in Net Position of Governmental Activities**

\$ (2,847,540)

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 7,168,797
Receivables	<u>20,805</u>
<b>Total Assets</b>	<u><u>7,189,602</u></u>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	<u>120,901</u>
 <b>NET POSITION</b>	
Restricted	<u><u>\$ 7,068,701</u></u>

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 25,004,580
<b>OPERATING EXPENSES</b>	
Operating costs	24,386,171
<b>Operating Income</b>	<u>618,409</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>54,992</u>
<b>Change in Net Position</b>	673,401
<b>Total Net Position - Beginning</b>	6,395,300
<b>Total Net Position - Ending</b>	<u><u>\$ 7,068,701</u></u>

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 24,994,390
Cash payments to other suppliers of goods or services	(24,381,693)
Net Cash Provided by Operating Activities	<u>612,697</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>54,992</u>
Net Increase in Cash and Cash Equivalents	667,689
Cash and Cash Equivalents - Beginning	6,501,108
Cash and Cash Equivalents - Ending	<u><u>\$ 7,168,797</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 618,409
Changes in assets and liabilities:	
Receivables	(10,190)
Accounts payable	5,796
Due to other fund	(1,318)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 612,697</u></u>

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 292,540
<b>LIABILITIES</b>	
Due to section 125 plan members	\$ 213,218
Due to student groups	79,322
<b>Total Liabilities</b>	<u>\$ 292,540</u>

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Santa Maria-Bonita School District (the District) was organized in 1988 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates fifteen elementary schools and four junior high schools.

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

#### **Component Units**

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

The Santa Maria-Bonita School District Capital Facilities Corporation's financial activity is presented in the financial statements as the COP Capital Projects Fund and the COP Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

#### **Basis of Presentation - Fund Accounting**

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

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



# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in fund balance of \$1,298,704.

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

### Non-Major Governmental Funds

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

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

**County School Facilities Fund** The County School Facilities 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), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) 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.).

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

**COP Capital Project Fund** The COP Capital Project Fund is used to account for capital projects financed by Santa Maria-Bonita School District Capital Facilities Corporation that is considered a blended component unit of the District under generally accepted accounting principles (GAAP).

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

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

**COP Debt Service Fund** The COP Debt Service Fund is used to account for the accumulation of resources for the payment of principal and interest on cops issued by the Santa Maria-Bonita School District Capital Facilities Corporation that is considered a blended component unit of the District under generally accepted accounting principles (GAAP).

**Proprietary Funds** 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 local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Fund** Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a Self Insurance Fund that is accounted for in an internal service fund.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for contributions by employees under a Section 125 Cafeteria Plan for eligible expenses and for student body activities.

### **Basis of Accounting - Measurement Focus**

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

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

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Proprietary Funds** Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Cash and Cash Equivalents**

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

### **Investments**

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

### **Prepaid Expenditures (Expenses)**

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

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Interfund Balances**

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

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term obligations.

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

### **Accounts Payable and Long-Term Obligations**

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

### **Deferred Outflows/Inflows of Resources**

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

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

### **Pensions**

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### **Fund Balances - Governmental Funds**

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

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

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

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

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

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

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

### **Minimum Fund Balance Policy**

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

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$25,372,912 of restricted net position.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Interfund Activity**

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

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

### **Estimates**

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

### **Property Tax**

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

### **Change in Accounting Principles**

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



# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

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

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### New Accounting Pronouncements

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

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

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

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

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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

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

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

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

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

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

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

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

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

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

Governmental activities	\$ 105,572,982
Fiduciary funds	292,540
Total Deposits and Investments	<u>\$ 105,865,522</u>

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

Cash on hand and in banks	\$ 315,089
Cash in revolving	8,370
Investments with County Treasury	105,542,063
Total Deposits and Investments	<u>\$ 105,865,522</u>

#### Policies and Practices

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

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### General Authorizations

Limitations as they relate to interest rate risk are indicated in the schedules below:

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

### Interest Rate Risk

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**Segmented Time Distribution**

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

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 104,937,158	\$ -	\$ 104,937,158	\$ -	\$ -

**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

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

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

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

Uncategorized - Investments in the Santa Barbara 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.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 - RECEIVABLES**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 5,609,120	\$ -	\$ 1,606,287	\$ -	\$ 7,215,407
State Government					
State grants and entitlements	10,031,891	-	110,736	-	10,142,627
Local Sources	437,419	69,494	109,702	20,805	637,420
Total	<u>\$ 16,078,430</u>	<u>\$ 69,494</u>	<u>\$ 1,826,725</u>	<u>\$ 20,805</u>	<u>\$ 17,995,454</u>

**NOTE 5 - CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 28,461,231	\$ 5,898,323	\$ -	\$ 34,359,554
Construction in progress	6,775,790	10,831,561	140,631	17,466,720
Total Capital Assets Not Being Depreciated	<u>35,237,021</u>	<u>16,729,884</u>	<u>140,631</u>	<u>51,826,274</u>
Capital Assets being depreciated				
Land improvements	7,796,468	373,524	-	8,169,992
Buildings and improvements	204,201,089	57,615	-	204,258,704
Furniture and equipment	9,083,401	115,022	-	9,198,423
Total Capital Assets Being Depreciated	<u>221,080,958</u>	<u>546,161</u>	<u>-</u>	<u>221,627,119</u>
Less Accumulated Depreciation				
Land improvements	3,973,842	303,598	-	4,277,440
Buildings and improvements	56,415,459	4,431,745	-	60,847,204
Furniture and equipment	6,491,937	997,153	-	7,489,090
Total Accumulated Depreciation	<u>66,881,238</u>	<u>5,732,496</u>	<u>-</u>	<u>72,613,734</u>
Governmental Activities Capital Assets, Net	<u>\$ 189,436,741</u>	<u>\$ 11,543,549</u>	<u>\$ 140,631</u>	<u>\$ 200,839,659</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

Depreciation expense was charged to functional expenses as follows:

Governmental Activities	
Instruction	\$ 4,829,436
Home-to-school transportation	89,759
Plant services	338,247
Data processing	465,404
All other general administration	9,650
Total Depreciation Expenses, Governmental Activities	<u>\$ 5,732,496</u>

**NOTE 6 - PREPAID EXPENDITURES (EXPENSES)**

Prepaid expenditures (expenses) at June 30, 2018, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Various vendors	\$ 230,898	\$ -	\$ 230,898
Lease leaseback payment	-	59,711	59,711
Total Governmental Funds	<u>\$ 230,898</u>	<u>\$ 59,711</u>	<u>\$ 290,609</u>

**NOTE 7 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

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

	Interfund Receivables	Interfund Payables
Major Governmental Fund		
General	\$ 648,330	\$ 335,780
Non-Major Governmental Funds		
Child Development	331,537	156,442
Cafeteria	4,243	430,749
Capital Facilities	-	61,139
Total Non-Major Governmental Funds	<u>335,780</u>	<u>648,330</u>
Total All Funds	<u>\$ 984,110</u>	<u>\$ 984,110</u>



**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The General Fund owes the Child Development Non-Major Governmental Fund for salaries and preschool support.	\$ 331,537
The General Fund owes the Cafeteria Non-Major Governmental Fund for Café expenditures.	4,243
The Child Development Non-Major Governmental Fund owes the General Fund for OPEB and indirect costs.	156,442
The Cafeteria Non-Major Governmental Fund owes the General Fund for OPEB and indirect costs.	430,749
The Capital Facilities Non-Major Governmental Fund owes the General Fund for a three percent administration fee.	61,139
Total	<u><u>\$ 984,110</u></u>

**Operating Transfers**

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The General Fund transferred to the Child Development Non-Major Governmental Fund for preschool support.	\$ 331,536
The General Fund transferred to the Special Reserve Capital Outlay Non-Major Governmental Fund for lease leaseback payments.	1,553,316
The General Fund transferred to the COP Debt Service Non-Major Governmental Fund for debt service payments.	3,468,357
Total	<u><u>\$ 5,353,209</u></u>

**NOTE 8 - ACCOUNTS PAYABLE**

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 11,010,319	\$ 437,773	\$ 841,072	\$ 12,289,164	\$ 120,901	\$ 12,410,065
Accrued salaries and benefits	4,386,888	-	-	4,386,888	-	4,386,888
State apportionment	1,887,291	-	-	1,887,291	-	1,887,291
Total	<u><u>\$ 17,284,498</u></u>	<u><u>\$ 437,773</u></u>	<u><u>\$ 841,072</u></u>	<u><u>\$ 18,563,343</u></u>	<u><u>\$ 120,901</u></u>	<u><u>\$ 18,684,244</u></u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 9 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 5,025	\$ -	\$ 5,025
State sources	-	128,309	128,309
Total Governmental Funds	<u>\$ 5,025</u>	<u>\$ 128,309</u>	<u>\$ 133,334</u>

### NOTE 10 - LONG-TERM OBLIGATIONS

#### Summary

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

	Balance July 1, 2017, as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General Obligation Bonds					
2015 Issuance	\$ 30,000,000	\$ -	\$ -	\$ 30,000,000	\$ -
Premium on issuance	1,886,153	-	67,363	1,818,790	-
Certificates of Participation <sup>1</sup>					
Series 2013 new construction	21,815,000	-	1,095,000	20,720,000	1,115,000
Series 2013 refunding	15,175,301	-	1,172,387	14,002,914	1,209,968
State preschool revolving loans	126,000	-	63,000	63,000	63,000
Early retirement incentives					
PARS	624,093	-	624,093	-	-
ERIP	282,083	535,000	184,583	632,500	84,000
Compensated absences - net	79,124	19,178	-	98,302	-
Other postemployment benefits	16,894,520	239,218	-	17,133,738	-
Total	<u>\$ 86,882,274</u>	<u>\$ 793,396</u>	<u>\$ 3,206,426</u>	<u>\$ 84,469,244</u>	<u>\$ 2,471,968</u>

<sup>1</sup> Issued through the Santa Maria-Bonita Capital Facilities Corporation.

The general obligation bonds will be paid through the Bond Interest and Redemption Fund with local property tax revenues. The COP Debt Service Fund makes payments for the certificates of participation. The General Fund makes payments for the State portables. The compensated absences, early retirement obligations, and other postemployment benefits will be paid by the fund for which the employee worked.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rates %	Original Issue	Bonds Outstanding July 1, 2017	Redeemed	Bonds Outstanding June 30, 2018
8/7/2014	8/1/2044	1.65-3.81	\$ 30,000,000	\$ 30,000,000	\$ -	\$ 30,000,000
Premium			2,020,879	1,886,153	67,363	1,818,790
Total			<u>\$ 32,020,879</u>	<u>\$ 31,886,153</u>	<u>\$ 67,363</u>	<u>\$ 31,818,790</u>

**Debt Service Requirements to Maturity**

The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ -	\$ 1,282,656	\$ 1,282,656
2020	-	1,282,656	1,282,656
2021	-	1,282,656	1,282,656
2022	45,000	1,282,206	1,327,206
2023	100,000	1,279,757	1,379,757
2024-2028	1,495,000	6,239,410	7,734,410
2029-2033	3,765,000	5,598,659	9,363,659
2034-2038	7,010,000	4,328,903	11,338,903
2039-2043	11,505,000	2,252,323	13,757,323
2044-2045	6,080,000	222,141	6,302,141
Total	<u>\$ 30,000,000</u>	<u>\$ 25,051,367</u>	<u>\$ 55,051,367</u>

**Certificates of Participation**

The outstanding certificates of participation debt is as follows:

Issue Date	Maturity Date	Interest Rates %	Original Issue	Certificates Outstanding July 1, 2017	Redeemed	Certificates Outstanding June 30, 2018
4/16/2013	6/1/2033	1.0-4.11	\$ 25,915,000	\$ 21,815,000	\$ 1,095,000	\$ 20,720,000
3/1/2013	6/1/2028	3.18	19,408,712	15,175,301	1,172,387	14,002,914
Total			<u>\$ 45,323,712</u>	<u>\$ 36,990,301</u>	<u>\$ 2,267,387</u>	<u>\$ 34,722,914</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

Certificates of Participation - New Construction

The certificates mature through 2033 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 1,115,000	\$ 705,819	\$ 1,820,819
2020	1,140,000	683,519	1,823,519
2021	1,165,000	656,444	1,821,444
2022	1,195,000	625,863	1,820,863
2023	1,230,000	590,013	1,820,013
2024-2028	6,770,000	2,335,763	9,105,763
2029-2033	8,105,000	998,200	9,103,200
Total	<u>\$ 20,720,000</u>	<u>\$ 6,595,621</u>	<u>\$ 27,315,621</u>

Certificates of Participation - 2013 Refunding

The certificates mature through 2028 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2019	\$ 1,209,968	\$ 435,671	\$ 1,645,639
2020	1,248,753	396,885	1,645,638
2021	1,288,782	356,857	1,645,639
2022	1,330,094	315,545	1,645,639
2023	1,372,730	272,909	1,645,639
2024-2028	7,552,587	675,607	8,228,194
Total	<u>\$ 14,002,914</u>	<u>\$ 2,453,474</u>	<u>\$ 16,456,388</u>

**State Preschool Revolving Loan**

The District was approved for a loan of \$630,000 from the California Department of Education for the purpose of construction of three preschool sites. The loan is at zero percent interest and is due in annual payments of \$63,000 through fiscal year 2018-2019. The loan balance at June 30, 2018, is \$63,000.

Schedule of Remaining District Payments:

<u>Year Ending June 30,</u>	<u>Principal</u>
2019	<u>\$ 63,000</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**Early Retirement Incentive Obligations**

The District provides the following special termination benefits for early retirement:

Public Agency Retirement Services Program

The District provided employees age 55 and over with a minimum of ten years of full-time service who elected to retire before June 2008, with voluntary resignation incentive income. Eligible retirees qualified for the plan and are receiving varying amounts per participant annually for five years. The outstanding liability for this plan was paid in full at June 30, 2018.

Early Retirement Incentive Program

The District provides an early retirement program to certificated, management and confidential employees. To qualify participants must have served ten years full-time in the District and be fifty-five years of age or older. Participants retiring at ages 55 through 58 can receive \$12,000 per year in exchange for days of work for the District after retirement. The number of days of work is limited by the collective bargaining agreement and/or board policy stipulations. Participation is limited to a maximum of five years. Participants retiring from the age of 59 to 62 are eligible to receive a set amount of \$45,000 at age 59, \$30,000 at age 60, \$15,000 at age 61 or \$7,000 at age 62. Eligible retirees qualified for the plan and are receiving varying amounts per participant annually. The outstanding liability for this plan was \$632,500 at June 30, 2018.

Payments are as follows:

Year Ending June 30,	Required Payment
2019	\$ 271,000
2020	151,500
2021	81,000
2022	69,000
2023	60,000
Total	<u>\$ 632,500</u>

**Compensated Absences**

The compensated absence obligation for the District at June 30, 2018, amounted to \$98,302.

**Other Postemployment Benefit (OPEB) Liability**

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

<u>OPEB Plan</u>	Total OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	<u>\$ 17,133,738</u>	<u>\$ 982,344</u>	<u>\$ 1,250,816</u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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The details of the plan are as follows:

### District Plan

#### **Plan Administration**

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

#### *Plan Membership*

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

Inactive employees or beneficiaries currently receiving benefits payments	107
Active employees	1,094
Total	<u>1,201</u>

#### *Benefits Provided*

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

#### *Contributions*

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Santa Maria Elementary Education Association (SMEEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, SMEEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$982,344 in benefits.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Total OPEB Liability of the District

The District's total OPEB liability of \$17,133,738 was measured as of June 30, 2017, as determined by an actuarial valuation as of that date.

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.0 percent
Salary increases	3.0 percent, average, including inflation
Discount rate	3.13 percent, net of OPEB plan investment expense, including inflation 8.0 percent for 2016; 7.0 percent for 2017; 6.0 percent for 2018; and
Healthcare cost trend rates	5.0 percent for 2019 and later

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

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

The actual assumptions used in the June 30, 2016 valuation were based on the results of an actual experience study for the period July 1, 2014 to June 30, 2016.

### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 16,894,520
Service cost	737,727
Interest	513,089
Benefit payments	(1,011,598)
Net change in total OPEB liability	<u>239,218</u>
Balance at June 30, 2017	<u>\$ 17,133,738</u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

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

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.13%)	\$ 17,975,348
Current discount rate (3.13%)	17,133,738
1% increase (4.13%)	16,292,643

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

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

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (7.0% decreasing to 4.0%)	\$ 16,994,350
Current healthcare cost trend rate (8.0% decreasing to 5.0%)	17,133,738
1% increase (9.0% decreasing to 6.0%)	17,291,580

### **OPEB Expense and Deferred Outflows of Resources related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,250,816. At June 30, 2018, the District reported deferred outflows of resources for the amount paid by the District for OPEB as the benefits come due subsequent to measurement date of \$982,344.



**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 11 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 8,370	\$ -	\$ -	\$ 8,370
Stores inventories	64,165	-	181,970	246,135
Prepaid expenditures	230,898	-	59,711	290,609
Total Nonspendable	<u>303,433</u>	<u>-</u>	<u>241,681</u>	<u>545,114</u>
Restricted				
Legally restricted programs	7,696,788	-	4,560,459	12,257,247
Capital projects	-	18,242,873	11,727,004	29,969,877
Debt services	-	-	5,243,840	5,243,840
Total Restricted	<u>7,696,788</u>	<u>18,242,873</u>	<u>21,531,303</u>	<u>47,470,964</u>
Committed				
Deferred maintenance program	-	-	502,577	502,577
Assigned				
Adoption of science materials 2020	2,500,000	-	-	2,500,000
Adoption of social studies materials 2019	2,500,000	-	-	2,500,000
Reserve LCFF growth (BP3100)	13,890,059	-	-	13,890,059
One-time funds for mandate claims	8,875,521	-	-	8,875,521
MAA Sp Ed/Nursing	1,132,168	-	-	1,132,168
Miscellaneous grants and donations	96,332	-	-	96,332
Reserve for 2017-2018 1.5% settlement	2,922,392	-	-	2,922,392
Tech, outreach, health and wellness	2,264,033	-	-	2,264,033
Student housing needs	1,298,704	-	-	1,298,704
Physical education changing facility	-	-	4,314,960	4,314,960
Future student housing needs	-	-	3,698,077	3,698,077
Total Assigned	<u>35,479,209</u>	<u>-</u>	<u>8,013,037</u>	<u>43,492,246</u>
Unassigned				
Reserve for economic uncertainties	6,208,000	-	-	6,208,000
Total	<u>\$49,687,430</u>	<u>\$ 18,242,873</u>	<u>\$ 30,288,598</u>	<u>\$ 98,218,901</u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 12 - RISK MANAGEMENT

#### Employee Medical Benefits

The District has contracted with the Self-Insured Schools of California (SISC III) to provide employee medical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a fund from which claim payments are made for the District. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

#### Property and Liability

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

#### Workers' Compensation

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

### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 132,957,167	\$ 47,789,218	\$ 8,053,893	\$ 15,673,224
CalPERS	36,950,511	12,691,937	435,047	7,586,751
Total	<u>\$ 169,907,678</u>	<u>\$ 60,481,155</u>	<u>\$ 8,488,940</u>	<u>\$ 23,259,975</u>

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

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

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

**Benefits Provided**

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

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

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

**Contributions**

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$11,880,095.

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

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

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 132,957,167
State's proportionate share of the net pension liability associated with the District	<u>78,656,337</u>
Total	<u><u>\$ 211,613,504</u></u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1438 percent and 0.1434 percent, resulting in a net increase in the proportionate share of 0.0004 percent.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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For the year ended June 30, 2018, the District recognized pension expense of \$15,673,224. In addition, the District recognized pension expense and revenue of \$7,917,516 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 11,880,095	\$ -
Net change in proportionate share of net pension liability	10,785,567	2,193,887
Difference between projected and actual earnings on pension plan investments	-	3,541,019
Differences between expected and actual experience in the measurement of the total pension liability	491,688	2,318,987
Changes of assumptions	24,631,868	-
Total	<u>\$ 47,789,218</u>	<u>\$ 8,053,893</u>

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

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

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2019	\$ (2,943,781)
2020	2,227,574
2021	321,202
2022	(3,146,014)
Total	<u>\$ (3,541,019)</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 5,904,819
2020	5,904,819
2021	5,904,819
2022	5,904,821
2023	3,545,027
Thereafter	4,231,944
Total	<u>\$ 31,396,249</u>

**Actuarial Methods and Assumptions**

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

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

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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

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

**Discount Rate**

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 195,223,331
Current discount rate (7.10%)	132,957,167
1% increase (8.10%)	82,423,955

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

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

#### Benefits Provided

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

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

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



# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$3,260,272.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$36,950,511. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1548 percent and 0.1537 percent, resulting in a net increase in the proportionate share of 0.0011 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$7,586,751. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,260,272	\$ -
Net change in proportionate share of net pension liability	1,432,443	-
Difference between projected and actual earnings on pension plan investments	1,278,234	-
Differences between expected and actual experience in the measurement of the total pension liability	1,323,785	-
Changes of assumptions	5,397,203	435,047
Total	<u>\$ 12,691,937</u>	<u>\$ 435,047</u>

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ (34,636)
2020	1,474,806
2021	538,026
2022	(699,962)
Total	<u>\$ 1,278,234</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 3,084,952
2020	2,726,769
2021	1,906,663
Total	<u>\$ 7,718,384</u>

### Actuarial Methods and Assumptions

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

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

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

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

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 54,366,043
Current discount rate (7.15%)	36,950,511
1% increase (8.15%)	22,502,869

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Alternative Retirement Plan

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Self-Insured Schools of California (SISC) defined benefit plan as its alternative plan. For all employees who were members in the plan prior to January 1, 2014, the District is required to make contributions of 3.7 percent of the employees' salary. For all employees who entered the plan subsequent to January 1, 2014, the District is required to make contributions of 2.1 percent of the employees' salary and the employee is required to contribute 1.6 percent. There is no specified length of time an employee must work for the District in order to receive benefits. The benefits are 100 percent vested from the date of participation. The District made contributions of \$309,030 to this plan during the fiscal year ended June 30, 2018, of which \$95,767 was the employee portion. Copies of the SISC defined benefit plan annual financial report may be obtained from the SISC executive office.

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$6,396,447 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Grants

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

### Litigation

The District is not currently a party to any legal proceedings.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Construction Commitments

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

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Construction of a six-classroom buildings at two district sites.	\$ 387,906	August 2018
Painting at three district sites.	285,760	August 2018
Nitrate removal treatment system	122,738	October 2018
Paving project	295,595	October 2018
Fire alarm and intercom replacement	495,265	December 2018
Total	\$ 1,587,264	

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

The District is a member of the Self Insured Schools of California II (SISC II), Self Insured Schools of California III (SISC III), and the Self-Insurance Program for Employees (SIPE) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation and property liability coverage. The relationships between the District and pools 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.

The District has no appointed members to the Governing Board of SISC II.

During the year ended June 30, 2018, the District made payments of \$731,829 to SISC II for liability and property insurance.

The District has no appointed members to the Governing Board of SISC III.

During the year ended June 30, 2018, the District made payments of \$17,431,208 to SISC III for health insurance.

The District has no appointed members to the Governing Board of SIPE.

During the year ended June 30, 2018, the District made payments of \$1,962,899 to SIPE for workers' compensation insurance.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

#### **Government-Wide Financial Statements**

Net Position - Beginning	\$ 121,757,064
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(14,304,426)</u>
Net Position - Beginning as Restated	<u><u>\$ 107,452,638</u></u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

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

	<b>Budgeted Amounts</b>			<b>Variances -</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Favorable</b>
				<b>(Unfavorable)</b>
				<b>Final</b>
				<b>to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 157,003,589	\$ 166,813,009	\$ 170,125,108	\$ 3,312,099
Federal sources	13,339,199	15,542,868	14,172,542	(1,370,326)
Other State sources	15,693,308	15,871,993	15,790,408	(81,585)
Other local sources	1,506,833	7,648,520	7,199,621	(448,899)
<b>Total Revenues</b> <sup>1</sup>	<b>187,542,929</b>	<b>205,876,390</b>	<b>207,287,679</b>	<b>1,411,289</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	83,786,139	84,724,757	84,151,686	573,071
Classified salaries	26,496,092	25,865,846	25,532,350	333,496
Employee benefits	42,678,064	44,951,028	44,221,932	729,096
Books and supplies	13,713,795	15,305,962	12,318,019	2,987,943
Services and operating expenditures	24,441,434	30,393,939	25,320,504	5,073,435
Other outgo	7,108,953	8,212,870	8,093,510	119,360
Capital outlay	179,245	1,929,687	1,796,904	132,783
Debt service - principal	63,000	63,000	63,000	-
<b>Total Expenditures</b> <sup>1</sup>	<b>198,466,722</b>	<b>211,447,089</b>	<b>201,497,905</b>	<b>9,949,184</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(10,923,793)</b>	<b>(5,570,699)</b>	<b>5,789,774</b>	<b>11,360,473</b>
<b>Other Financing Uses</b>				
Transfers out	(5,713,752)	(5,225,273)	(5,353,209)	(127,936)
<b>NET CHANGE IN FUND BALANCES</b>	<b>(16,637,545)</b>	<b>(10,795,972)</b>	<b>436,565</b>	<b>11,232,537</b>
<b>Fund Balance - Beginning</b>	<b>49,250,865</b>	<b>49,250,865</b>	<b>49,250,865</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 32,613,320</b>	<b>\$ 38,454,893</b>	<b>\$ 49,687,430</b>	<b>\$ 11,232,537</b>

<sup>1</sup> Due to the consolidation of the Fund 17, Special Reserve Non-Capital Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.



**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY  
AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<u>2018</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 737,727
Interest	513,089
Benefit payments	<u>(1,011,598)</u>
<b>Net change in total OPEB liability</b>	239,218
<b>Total OPEB liability - beginning</b>	<u>16,894,520</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 17,133,738</u></u>
<b>Covered payroll</b>	<u>N/A<sup>1</sup></u>
<b>District's total OPEB liability as a percentage of covered payroll</b>	<u>N/A<sup>1</sup></u>

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<sup>1</sup> The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

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

	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
District's proportion of the net pension liability	<u>0.1438%</u>	<u>0.1434%</u>
District's proportionate share of the net pension liability	\$ 132,957,167	\$ 115,950,561
State's proportionate share of the net pension liability associated with the District	<u>78,656,337</u>	<u>66,008,586</u>
Total	<u>\$ 211,613,504</u>	<u>\$ 181,959,147</u>
District's covered - employee payroll	<u>\$ 76,456,002</u>	<u>\$ 72,537,316</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>173.90%</u>	<u>159.85%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>		
District's proportion of the net pension liability	<u>0.1548%</u>	<u>0.1537%</u>
District's proportionate share of the net pension liability	<u>\$ 36,950,511</u>	<u>\$ 30,360,854</u>
District's covered - employee payroll	<u>\$ 19,527,412</u>	<u>\$ 18,762,539</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>189.22%</u>	<u>161.82%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.1475%</u>	<u>0.1222%</u>
\$ 99,312,051	\$ 71,433,755
<u>52,525,127</u>	<u>43,134,786</u>
<u>\$ 151,837,178</u>	<u>\$ 114,568,541</u>
<u>\$ 64,413,378</u>	<u>\$ 58,086,921</u>
<u>154.18%</u>	<u>122.98%</u>
<u>74%</u>	<u>77%</u>
<u>0.1406%</u>	<u>0.1314%</u>
<u>\$ 20,717,594</u>	<u>\$ 14,920,929</u>
<u>\$ 15,693,747</u>	<u>\$ 13,778,885</u>
<u>132.01%</u>	<u>108.29%</u>
<u>79%</u>	<u>83%</u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

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	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>		
Contractually required contribution	\$ 11,880,095	\$ 9,618,165
Contributions in relation to the contractually required contribution	<u>11,880,095</u>	<u>9,618,165</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 82,329,141</u>	<u>\$ 76,456,002</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
<b>CalPERS</b>		
Contractually required contribution	\$ 3,260,272	\$ 2,711,967
Contributions in relation to the contractually required contribution	<u>3,260,272</u>	<u>2,711,967</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 20,992,029</u>	<u>\$ 19,527,412</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 7,783,254	\$ 5,719,908
<u>7,783,254</u>	<u>5,719,908</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 72,537,316</u>	<u>\$ 64,413,378</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 2,222,798	\$ 1,847,311
<u>2,222,798</u>	<u>1,847,311</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 18,762,539</u>	<u>\$ 15,693,747</u>
<u>11.847%</u>	<u>11.771%</u>

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

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

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

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

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

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

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

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

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

***Changes of Assumptions*** - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

#### **Schedule of District Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

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***SUPPLEMENTARY INFORMATION***

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through California Department of Education:			
Title I, Part A, Basic	84.010	14329	\$ 4,659,267
Title I, Part C, Migrant Education-Regular	84.011	14326	3,607,502
Title I, Part C, Migrant Education-Even Start	84.011	14768	381,880
Title II - Part A, Supporting Effective Instruction	84.367	14341	647,410
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	110,918
Title III - English Language Acquisition - LEP	84.365	14346	807,252
Title III - English Language Acquisition - IEP	84.365	15146	46,509
Title X, McKinney Vento Homeless Assistance	84.196	14332	162,061
Teacher Quality Partnership Program	84.336S	N/A	4,830
Special Education Cluster			
Special Education, Basic Local Assistance	84.027	13379	2,667,464
Special Education, Basic - Preschool Section 619	84.173	13430	153,093
Special Education, Basic - Preschool Section 611	84.027A	13682	651,524
Subtotal Special Education Cluster			<u>3,472,081</u>
Subtotal U.S. Department of Education			<u>13,899,710</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through California Department of Education:			
Child Nutrition Cluster			
Child Nutrition School Programs-Needy Breakfast	10.553	13526	1,862,202
Child Nutrition School Programs-Lunch	10.555	13391	7,201,477
Meals Supplements-Snack	10.555	13391	258,465
Food Distribution-Commodities	10.555	13391	520,543
Subtotal Child Nutrition Cluster			<u>9,842,687</u>
Child Nutrition: Cash In-Lieu of Commodities	10.558	13389	60,880
Child Nutrition: Child and Adult Food Care Program	10.558	13666	949,965
Child Nutrition: Fresh Fruit and Vegetable Program	10.582	14968	423,981
Subtotal U.S. Department of Agriculture			<u>11,277,513</u>

N/A - Not Applicable

See accompanying note to supplementary information.



**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
Medi-Cal Administrative Assistance	93.778	10060	\$ 272,832
Subtotal U.S. Department of Health and Human Services			<u>272,832</u>
Total Expenditures of Federal Awards			<u><u>\$ 25,450,055</u></u>

N/A - Not Applicable

See accompanying note to supplementary information.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Santa Maria-Bonita School District began operations on July 1, 1988, when the Santa Maria Elementary School District and the Bonita School District merged. The District operates sixteen elementary schools and four junior high schools. There were no boundary changes during the year.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ricky Lara	President	2018
Vedamarie Alvarez Flores	Vice President	2018
John Hollinshead	Clerk	2020
JoAnn Oliver	Member	2020
Linda Cordero	Member	2020

### ADMINISTRATION

Luke Ontiveros	Superintendent
Matthew Beecher	Assistant Superintendent for Business Services
Patty Grady	Assistant Superintendent for Human Resources
Mark Muller	Assistant Superintendent of Instructional Services

See accompanying note to supplementary information.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

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	Second Period Report	Annual Report
	<u>                    </u>	<u>                    </u>
Regular ADA		
Transitional kindergarten through third	7,705.30	7,672.99
Fourth through sixth	5,426.23	5,407.52
Seventh and eighth	3,413.84	3,388.97
Total Regular ADA	<u>16,545.37</u>	<u>16,469.48</u>
Extended Year Special Education		
Transitional kindergarten through third	10.18	10.18
Fourth through sixth	5.71	5.71
Seventh and eighth	2.33	2.33
Total Extended Year Special Education	<u>18.22</u>	<u>18.22</u>
Total ADA	<u><u>16,563.59</u></u>	<u><u>16,487.70</u></u>

See accompanying note to supplementary information.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

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<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>2017-2018 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	36,000	180	Complied
Grades 1 - 3	50,400			
Grade 1		54,077	180	Complied
Grade 2		54,077	180	Complied
Grade 3		54,697	180	Complied
Grades 4 - 8	54,000			
Grade 4		54,697	180	Complied
Grade 5		54,697	180	Complied
Grade 6		54,697	180	Complied
Grade 7		62,640	180	Complied
Grade 8		62,640	180	Complied

See accompanying note to supplementary information.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Major Fund Building Fund	Non-Major Funds	
		Deferred Maintenance Fund	County School Facilities Fund
<b>FUND BALANCE</b>			
Balance, June 30, 2018, Unaudited Actuals	\$ 18,164,810	\$ 124,983	\$ 684,256
Decrease in:			
Accounts payable	78,063	377,594	96,251
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 18,242,873</u>	<u>\$ 502,577</u>	<u>\$ 780,507</u>

See accompanying note to supplementary information.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 <sup>1</sup>	2018	2017	2016
GENERAL FUND <sup>3</sup>				
Revenues and other sources	\$ 213,410,993	\$ 207,272,183	\$ 199,689,546	\$ 191,101,749
Expenditures	213,822,135	201,497,905	186,050,358	166,359,034
Other uses and transfers out	3,898,351	5,353,209	5,413,915	19,362,240
Total Expenditures and Other Uses	217,720,486	206,851,114	191,464,273	185,721,274
INCREASE/(DECREASE) IN FUND BALANCE	\$ (4,309,493)	\$ 421,069	\$ 8,225,273	\$ 5,380,475
ENDING FUND BALANCE	\$ 44,079,233	\$ 48,388,726	\$ 47,967,657	\$ 39,742,384
AVAILABLE RESERVES <sup>2</sup>	\$ 6,532,615	\$ 6,208,000	\$ 5,745,000	\$ 22,555,453
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	3.0%	3.0%	12.1%
LONG-TERM OBLIGATIONS <sup>4</sup>	Not Available	\$ 84,469,244	\$ 86,882,274	\$ 75,542,020
AVERAGE DAILY ATTENDANCE AT P-2	16,564	16,564	16,311	16,040

The General Fund balance has increased by \$8,646,342 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$4,309,493 (8.91 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$8,927,224 over the past two years.

Average daily attendance has increased by 524 over the past two years. No change in ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget 2019 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of Fund 17, Special Reserve Non-Capital Fund as required by GASB Statement No. 54.

<sup>4</sup> The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 1	\$ 3,320,437	\$ 822,422
Receivables	466	1,726,407	3,093
Due from other funds	331,537	4,243	-
Prepaid expenses	-	-	-
Stores inventories	-	181,970	-
<b>Total Assets</b>	<b>\$ 332,004</b>	<b>\$ 5,233,057</b>	<b>\$ 825,515</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 47,253	\$ 59,879	\$ 322,938
Due to other funds	156,442	430,749	-
Unearned revenue	128,309	-	-
<b>Total Liabilities</b>	<b>332,004</b>	<b>490,628</b>	<b>322,938</b>
<b>Fund Balances:</b>			
Nonspendable	-	181,970	-
Restricted	-	4,560,459	-
Committed	-	-	502,577
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>-</b>	<b>4,742,429</b>	<b>502,577</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 332,004</b>	<b>\$ 5,233,057</b>	<b>\$ 825,515</b>

See accompanying note to supplementary information.



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<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>COP Capital Projects Fund</b>	<b>Bond Interest and Redemption Fund</b>
\$ 6,995,903	\$ 1,066,271	\$ 8,351,546	\$ 3,721,696	\$ 4,491,400
24,200	6,276	32,607	13,683	15,281
-	-	-	-	-
-	-	59,711	-	-
-	-	-	-	-
<u>\$ 7,020,103</u>	<u>\$ 1,072,547</u>	<u>\$ 8,443,864</u>	<u>\$ 3,735,379</u>	<u>\$ 4,506,681</u>
\$ 112,274	\$ 292,040	\$ 6,688	\$ -	\$ -
61,139	-	-	-	-
-	-	-	-	-
<u>173,413</u>	<u>292,040</u>	<u>6,688</u>	<u>-</u>	<u>-</u>
-	-	59,711	-	-
6,846,690	780,507	364,428	3,735,379	4,506,681
-	-	-	-	-
-	-	8,013,037	-	-
<u>6,846,690</u>	<u>780,507</u>	<u>8,437,176</u>	<u>3,735,379</u>	<u>4,506,681</u>
<u>\$ 7,020,103</u>	<u>\$ 1,072,547</u>	<u>\$ 8,443,864</u>	<u>\$ 3,735,379</u>	<u>\$ 4,506,681</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>		
Deposits and investments	\$ 732,447	\$ 29,502,123
Receivables	4,712	1,826,725
Due from other funds	-	335,780
Prepaid expenses	-	59,711
Stores inventories	-	181,970
<b>Total Assets</b>	<b>\$ 737,159</b>	<b>\$ 31,906,309</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable	\$ -	\$ 841,072
Due to other funds	-	648,330
Unearned revenue	-	128,309
<b>Total Liabilities</b>	<b>-</b>	<b>1,617,711</b>
<b>Fund Balances:</b>		
Nonspendable	-	241,681
Restricted	737,159	21,531,303
Committed	-	502,577
Assigned	-	8,013,037
<b>Total Fund Balances</b>	<b>737,159</b>	<b>30,288,598</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 737,159</b>	<b>\$ 31,906,309</b>

See accompanying note to supplementary information.

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>			
Local Control Funding Formula	\$ -	\$ -	\$ 654,208
Federal sources	-	11,277,513	-
Other State sources	1,954,063	721,765	-
Other local sources	2,092	98,684	9,089
<b>Total Revenues</b>	<b>1,956,155</b>	<b>12,097,962</b>	<b>663,297</b>
<b>EXPENDITURES</b>			
Current			
Instruction	1,951,551	-	-
Instruction-related activities:			
Supervision of instruction	248,843	-	-
School site administration	21	-	-
Pupil services:			
Food services	-	10,516,633	-
All other pupil services	7,980	-	-
Administration:			
All other administration	78,064	402,070	-
Plant services	1,232	308,265	741,162
Facility acquisition and construction	-	118,773	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>2,287,691</b>	<b>11,345,741</b>	<b>741,162</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(331,536)</b>	<b>752,221</b>	<b>(77,865)</b>
<b>Other Financing Sources</b>			
Transfers in	331,536	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>752,221</b>	<b>(77,865)</b>
<b>Fund Balance - Beginning</b>	<b>-</b>	<b>3,990,208</b>	<b>580,442</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ 4,742,429</b>	<b>\$ 502,577</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>COP Capital Projects Fund</b>	<b>Bond Interest and Redemption Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	(8,516)	-	-	16,737
2,110,666	41,458	1,273,771	44,571	2,205,069
<u>2,110,666</u>	<u>32,942</u>	<u>1,273,771</u>	<u>44,571</u>	<u>2,221,806</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
87,014	-	-	-	-
149,828	-	403,413	-	-
227,887	4,544,541	3,976,644	-	-
-	-	-	-	-
-	-	-	-	1,283,426
<u>464,729</u>	<u>4,544,541</u>	<u>4,380,057</u>	<u>-</u>	<u>1,283,426</u>
<u>1,645,937</u>	<u>(4,511,599)</u>	<u>(3,106,286)</u>	<u>44,571</u>	<u>938,380</u>
-	-	1,553,316	-	-
<u>1,645,937</u>	<u>(4,511,599)</u>	<u>(1,552,970)</u>	<u>44,571</u>	<u>938,380</u>
<u>5,200,753</u>	<u>5,292,106</u>	<u>9,990,146</u>	<u>3,690,808</u>	<u>3,568,301</u>
<u>\$ 6,846,690</u>	<u>\$ 780,507</u>	<u>\$ 8,437,176</u>	<u>\$ 3,735,379</u>	<u>\$ 4,506,681</u>

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>COP Debt Service Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>		
Local Control Funding Formula	\$ -	\$ 654,208
Federal sources	-	11,277,513
Other State sources	-	2,684,049
Other local sources	22,117	5,807,517
<b>Total Revenues</b>	<u>22,117</u>	<u>20,423,287</u>
<b>EXPENDITURES</b>		
Current		
Instruction	-	1,951,551
Instruction-related activities:		
Supervision of instruction	-	248,843
School site administration	-	21
Pupil services:		
Food services	-	10,516,633
All other pupil services	-	7,980
Administration:		
All other administration	-	567,148
Plant services	-	1,603,900
Facility acquisition and construction	-	8,867,845
Debt service		
Principal	2,267,387	2,267,387
Interest and other	1,200,971	2,484,397
<b>Total Expenditures</b>	<u>3,468,358</u>	<u>28,515,705</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(3,446,241)</u>	<u>(8,092,418)</u>
<b>Other Financing Sources</b>		
Transfers in	3,468,357	5,353,209
<b>NET CHANGE IN FUND BALANCES</b>	22,116	(2,739,209)
<b>Fund Balance - Beginning</b>	715,043	33,027,807
<b>Fund Balance - Ending</b>	<u>\$ 737,159</u>	<u>\$ 30,288,598</u>

See accompanying note to supplementary information.

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

#### **Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### **Schedule of Average Daily Attendance (ADA)**

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

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

#### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

#### **Schedule of Financial Trends and Analysis**

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

# SANTA MARIA-BONITA SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Non-Major Governmental Funds - Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.



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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Santa Maria-Bonita School District  
Santa Maria, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria-Bonita School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Santa Maria-Bonita School District's basic financial statements, and have issued our report thereon dated December 3, 2018.

***Emphasis of Matter - Change in Accounting Principles***

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

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Maria-Bonita 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 Santa Maria-Bonita School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Maria-Bonita School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of Santa Maria-Bonita School District in a separate letter dated December 3, 2018.

### **Purpose of This Report**

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

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 3, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board  
Santa Maria-Bonita School District  
Santa Maria, California

**Report on Compliance for Each Major Federal Program**

We have audited Santa Maria-Bonita School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Maria-Bonita School District's major Federal programs for the year ended June 30, 2018. Santa Maria-Bonita School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Santa Maria-Bonita 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 Santa Maria-Bonita 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 Santa Maria-Bonita School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Santa Maria-Bonita 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 Santa Maria-Bonita 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 Santa Maria-Bonita 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 Santa Maria-Bonita School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Varinuk, Trine, Day + Co. LLP*

Fresno, California  
December 3, 2018



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Santa Maria-Bonita School District  
Santa Maria, California

### **Report on State Compliance**

We have audited Santa Maria-Bonita School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Santa Maria-Bonita School District's State government programs as noted below for the year ended June 30, 2018.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Santa Maria-Bonita School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santa Maria-Bonita School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Santa Maria-Bonita School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, Santa Maria-Bonita School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Santa Maria-Bonita School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	No (see below)
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

We did not perform procedures for Independent Study because the independent study ADA was under the level that requires testing.

We did not perform Continuation Education procedures because the program is not offered by the District.

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to Independent Study - Course Based.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

*Vavrinak, Trine, Day + Co. LLP*

Fresno, California  
December 3, 2018



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
Identification of major Federal programs	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition</u>
<u>84.365</u>	<u>Title III, IEP</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 763,502</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**SANTA MARIA-BONITA SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**SANTA MARIA-BONITA SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board  
Santa Maria-Bonita School District  
Santa Maria, California

In planning and performing our audit of the financial statements of Santa Maria-Bonita School District (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 3, 2018, on the government-wide financial statements of the District.

***EL CAMINO JR. HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)***

***Cash Receipts***

**Observation**

During our audit, we found that the bookkeeper does not always write receipts for funds collected. Any time that the bookkeeper receives money (cash or checks), that collection should be logged in the primary receipt book even if there is no individual present to give a receipt copy to.

**Recommendation**

Upon receipt of any funds (cash and checks), the bookkeeper should write a receipt in the primary receipt book. This is required even if monies are received through the mail and there is no individual present to give a receipt copy to. When funds are received from teachers/advisors along with sub-receipts or a log, the bookkeeper should verify that the sub-receipts or log received agree with the amount of funds turned in and ensure that the sub-receipts are in chronological and numeric order. Once verified, the bookkeeper should issue a receipt back to the teacher/advisor from the primary receipt book.

***Cash Disbursements***

**Observation**

During our audit, we found that the site is not using purchase requisitions to obtain approvals prior to the purchase of goods and services. Instead, a reimbursement request form is being completed after purchases are made as authorization. By obtaining prior authorization, it can then be determined if expenditures are allowable, conform to the various ASB club budgets, and if the clubs have sufficient funds to afford the expenditure.

Governing Board  
Santa Maria-Bonita School District

**Recommendation**

In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to items being purchased by using a purchase requisition form.

We will review the status of the current year comments during our next audit engagement.

*Vavrinek, Trine, Day + Co. LLP*

Fresno, California  
December 3, 2018



**APPENDIX C**

**FORM OF SPECIAL COUNSEL OPINION**

*Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, proposes to render its final approving opinion in substantially the following form:*

[Date of Delivery]

Santa Maria-Bonita School District  
Santa Maria, California

Santa Maria-Bonita School District  
Refunding Certificates of Participation, Series 2019  
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the Santa Maria-Bonita School District (the "District") in connection with the execution and delivery of the Santa Maria-Bonita School District Refunding Certificates of Participation, Series 2019 (the "Certificates"), evidencing principal in the aggregate amount of \$\_\_\_\_\_, executed and delivered on the date hereof, pursuant to the Trust Agreement, dated as of June 1, 2019 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the Santa Maria-Bonita Capital Facilities Corporation (the "Corporation") and the District. In such connection, we have reviewed the Trust Agreement, the Lease Agreement, dated as of June 1, 2019 (the "Lease Agreement"), by and between the District and the Corporation, the Ground Lease, dated as of June 1, 2019 (the "Ground Lease"), by and between the District and the Corporation, the Assignment Agreement, dated as of June 1, 2019 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), opinions of counsel to the District, the Corporation and the Trustee, certificates of the District, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Lease Agreement.

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 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District and the Corporation. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate, including, without limitation, covenants and agreements

compliance with which is necessary to assure that future actions, omissions or events will not cause the portion of Base Rental Payments designated as and constituting interest evidenced by the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Trust Agreement, the Lease Agreement, the Ground Lease or the Assignment Agreement or the accuracy or sufficiency of the description contained therein, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2019, or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement, the Lease Agreement and the Ground Lease have been duly executed and delivered by, and constitute valid and binding obligations of, the District.
2. The Lease Agreement, the Ground Lease and the Assignment Agreement have been duly executed and delivered by, and constitute the valid and binding obligations of, the Corporation.
3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.
4. The portion of each Base Rental Payment designated as and constituting interest paid by the District under the Lease Agreement and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest evidenced by the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates, or the amount, accrual or receipt of the portion of each Base Rental Payment constituting interest.

Faithfully yours,

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the Santa Maria-Bonita School District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the Santa Maria-Bonita School District Refunding Certificates of Participation, Series 2019 (the “Certificates”). The Certificates are being executed and delivered pursuant to the Trust Agreement, dated as of June 1, 2019 (the “Trust Agreement”), by and among U.S. Bank National Association, as trustee (the “Trustee”), Santa Maria-Bonita Capital Facilities Corporation and the District. The District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**“Annual Report”** shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

**“Beneficial Owner”** shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

**“Dissemination Agent”** shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

**“Financial Obligation”** shall mean, for purposes of the Listed Events set out in Section 5(a)(10) and Section (5)(b)(8), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**“Holder”** shall mean the person in whose name any Certificate shall be registered.

**“Listed Events”** shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

**“MSRB”** shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“**Official Statement**” shall mean the Official Statement, dated \_\_\_\_\_, 2019, relating to the Certificates.

“**Participating Underwriter**” shall mean the original underwriter(s) of the Certificates required to comply with the Rule in connection with execution and delivery of the Certificates.

“**Rule**” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which shall be April 1 of each year, so long as the District’s fiscal year ends June 30), commencing with the report for the 2018-19 fiscal year (which is due not later than April 1, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may cross-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 date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Certificates by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (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, stating the date it was provided to the MSRB.

**SECTION 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

- (1) The District’s Average Daily Attendance and aggregate LCFF Revenues for the last completed fiscal year;
- (2) The District’s contributions to the State Public Employees' Retirement System and the State Teachers' Retirement System for the last completed fiscal year;

- (3) The District's adopted budget for the current fiscal year, together with any amendments thereto;
- (4) Information regarding total assessed valuation of taxable properties within the District and the District's total property tax levy, in each case for the current fiscal year, if and to the extent provided to the District by the counties in which the District is located (the "Counties").
- (5) Outstanding borrowings and long-term obligations, including:
  - (i) general obligation bonds, certificates of participation, capital leases and operating leases;
  - (ii) a description of any obligations of the type referred to in (i) above that have been issued, entered into or incurred since the beginning of the District's current fiscal year; and
  - (iii) a description of any obligations of the type referred to in (i) above that the District reasonably expected to be issued, entered into or incurred within the 60 day period following the date of filing of the Annual Report.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (6) Tender offers;
- (7) Defeasances;
- (8) Rating changes;
- (9) **Bankruptcy, insolvency, receivership or similar event of the obligated person;**  
or

- (10) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (1) Unless described in Section 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
- (2) Modifications to rights of holders of the Certificates;
- (3) Optional, unscheduled or contingent Certificate calls;
- (4) Release, substitution, or sale of property securing repayment of the Certificates;
- (5) Non-payment related defaults;
- (6) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (7) Appointment of a successor or additional trustee or the change of name of a trustee; or
- (8) Incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders.

(c) Upon the occurrence of a Listed Event described in Section 5(a) of this Disclosure Certificate, or upon the occurrence of a Listed Event described in Section 5(b) of this Disclosure Certificate which the District determines would be material under applicable federal securities laws, the District shall

within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in Section 5(b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

(d) The District intends to comply with the Listed Events described in Section 5(a)(10) and Section 5(b)(8), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885 dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**SECTION 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**SECTION 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final principal payment date of the Certificates, the District shall give notice of such termination in a filing with the MSRB.

**SECTION 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**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) or (b), 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 Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual

Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**SECTION 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County of Santa Barbara or in U.S. District Court in or nearest to the County of Santa Barbara. 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. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2019

**SANTA MARIA-BONITA SCHOOL  
DISTRICT**

By: \_\_\_\_\_

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES, INC.**  
**doing business as Applied Best Practices,**  
**as Dissemination Agent**

By: \_\_\_\_\_  
Authorized Signatory



**CONTINUING DISCLOSURE EXHIBIT A**

**FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Santa Maria-Bonita School District  
Name of Issue: Santa Maria-Bonita School District  
Refunding Certificates of Participation, Series 2019  
Date of Delivery: \_\_\_\_\_, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 4 of the Continuing Disclosure Certificate of the District, dated the Date of Delivery. [The District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**SANTA MARIA-BONITA SCHOOL  
DISTRICT**

By: \_\_\_\_\_

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**APPENDIX E**

**COUNTY OF SANTA BARBARA INVESTMENT POLICIES AND PRACTICES AND  
DESCRIPTION OF INVESTMENT POOL**

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**SANTA BARBARA COUNTY**

**TREASURER**



**INVESTMENT POLICY**

**STATEMENT**

July 2018

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## **INTRODUCTION:**

The County of Santa Barbara's Investment Policy has been prepared in accordance with State law. This policy is presented annually to the Treasury Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code. The County establishes investment policies that meet its current investment goals. The County may change this policy as its investment objectives change.

## **I. POLICY STATEMENT**

The purpose of this Investment Policy is to provide a basis for the implementation and management of a prudent, conservative investment program. It is the policy of the Santa Barbara County Treasurer (the Treasurer) to invest public funds in a manner which provides the maximum security of principal invested with secondary emphasis on achieving the highest return, while meeting the daily cash flow needs of the Investment Pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

As an elected official of the County of Santa Barbara, the Treasurer must manage public monies in a way that is consistent with investment oversight and sound investment practices. To have a policy which only concerns itself with maximizing return is reckless. The basic concept of investment management is the risk/reward relationship. A higher promised return on any investment may indicate a higher level of risk. Risk management must be an integral part of any prudent investment policy. Risk management must include adequate internal controls so Investment Pool participants and the public have confidence that public monies are secure. Though all investments contain a degree of risk, the proper exercise of prudence, the maintenance of a high level of ethical standards, and the proper delegation of authority reduces the potential for loss.

## **II. PURPOSES**

This Investment Policy is set forth by the Treasurer for the following purposes:

- A. To implement the investment program in accordance with its legislative parameters and the authority to invest which is hereby delegated to the Treasurer by the Board of Supervisors;
- B. To establish a clear understanding for the Board of Supervisors, County management, responsible employees, citizens, and third parties of the objectives, policies and guidelines for the investment of County idle and surplus funds;
- C. To offer guidance to investment staff and any external investment advisors on the investment of the Investment Pool.

### **III. OBJECTIVES**

The objectives of this Investment Policy are, in order of priority:

- A. Safety of principal. The primary objective of the Treasurer’s investment program is to safeguard investment principal by mitigating exposure to risk factors, including, but not limited to, market (interest rate) risk, credit risk, and reinvestment risk. Specific risk parameters are set forth in Sections XII and XIII.
- B. Maintenance of sufficient liquidity to meet cash flow needs.
- C. Attainment of a “market average rate of return” consistent with the primary objectives of safety and liquidity.

Investments must always be in compliance with all federal, state and local laws governing the investment of moneys under the control of the Treasurer, this Investment Policy, and the Prudent Investor standard of care.

### **IV. SCOPE**

This Statement of Investment Policy applies to county, school and special district fund assets deposited in the County Treasury and under control of the Treasurer. It does not apply to assets that are not deposited in the County Treasury, including, but not limited to:

- A. Bond Funds (the investment of which is governed by the bond documents);
- B. Assets of Investment Pool participants other than assets on deposit in the County Treasury (which are the responsibility of the participant’s governing body); and
- C. Deferred Compensation Plan assets (which are invested for the benefit of participants in the Plan).
- D. The Treasurer may direct specific-purpose assets belonging to the county or other Investment Pool participants in instruments the earnings of which are not shared, but credited to the specific-purpose fund. The investments for these direct investment pools shall be made in accordance with this Policy, except that investments may be for periods greater than five years when a longer term is advantageous for the investment of money held for specific purposes. Investments for periods longer than five years require prior approval of the governing body in accordance with Government Code Section 53601.



## V. STANDARD OF CARE

- A. **The Prudent Investor Standard** is the appropriate standard of care for the Investment Pool. This standard shall be used by investment officials and shall be applied in the context of managing an overall portfolio. Investment staff acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.
- B. **The Prudent Investor Standard Defined:** When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments of an overall strategy, a trustee is authorized to acquire investments as authorized by law.

## VI. DELEGATION OF AUTHORITY

Authority to manage the County's investment program is derived from the California Government Code Sections 53600 *et seq.*, and Sections 53630 *et seq.*

The Treasurer is authorized by Santa Barbara County Code Section 2-24.8 to invest or reinvest the funds of the county and the funds of the other depositors in the county treasury, pursuant to Government Code Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5.

Within the Treasurer's office, the Treasurer has the authority to appoint individuals responsible for management of the portfolio, to make investments and to direct the receipt and delivery of investment securities at the custody bank.

## VII. ETHICS AND CONFLICTS OF INTEREST

Individuals performing the investment function and members of the Treasury Oversight Committee shall maintain the highest standards of conduct. They must maintain their independence and not have actual conflicts of interest. In addition, they shall avoid the appearance of having conflicts of interest or having lack of independence.

All investment personnel shall disclose to the Treasurer any financial interests in financial institutions that conduct business with the County of Santa Barbara and shall disclose any material financial positions that could be related in a conflicting manner to the investment

strategies and performance of the County of Santa Barbara's investment portfolio. In accordance with State law, the Treasurer and individuals responsible for management of the portfolio shall complete and submit State of California Form 700, Statement of Economic Interests Disclosure. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

The Treasurer, individuals responsible for management of the portfolio, and members of the Treasury Oversight Committee will 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 Treasurer conducts business.

The Treasurer, individuals responsible for management of the portfolio, and members of the Treasury Oversight Committee may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business or may, in the future, conduct business.

A member of the Treasury Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of the 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 while a member of the Committee. A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the Treasurer is doing business during the period that the person is a member of the Committee or for one year after leaving the Committee.

A member of the Treasury Oversight Committee may not directly or indirectly raise money for a candidate for local 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.

## **VIII. SAFEKEEPING OF SECURITIES**

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County shall be deposited for safekeeping with the custodial bank that has contracted to provide the Treasurer with custody and security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

## **IX. DELIVERY VS. PAYMENT**

All security transactions are to be conducted using industry-standard “delivery-versus-payment” procedures.

## **X. INTERNAL CONTROLS**

The Treasurer shall establish and document a system of internal controls that is prudent and comprehensive. Internal controls shall be designed to provide reasonable assurances that the combined Investment Pool assets are protected. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

Internal controls are designed to ensure separation of transaction authority from accounting and record keeping and to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer’s office.

No investment personnel may engage in an investment transaction except as provided under this investment policy and the procedures established by the Treasurer.

## **XI. AUTHORIZED DEALERS AND INSTITUTIONS**

The Treasurer shall determine which financial institutions are authorized to provide investment services to the County. Institutions eligible to transact investment business with the County include:

- Primary government dealers (including their parent and subsidiaries) as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank; and
- Direct issuers of securities eligible for purchase by the County.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be at the sole discretion of the County.

All financial institutions which desire to become authorized dealers for investment transactions must complete the Santa Barbara County’s “Request For Qualification” form. Each qualified dealer must certify in writing that they have reviewed the relevant California Government Code Sections and the County’s Investment Policy and that all securities offered to the County shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.

The authorized dealers and financial institutions must not have made any political contribution to the Treasurer, Board of Supervisors or candidates for these offices for 48 months before and any time during their engagement with the County.

Public deposits shall be made in accordance with State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.

The Treasurer, or designee, will create and review periodically an approved list of firms and financial institutions authorized to do business with the Treasurer. The Treasurer will maintain firms on the authorized list as long as it is in the best interest of the County to do so.

## **XII. PERMITTED INVESTMENTS**

### **A. Authorized Investments**

All investments shall be made in accordance with the California Government Code Sections 53630 *et seq.* and as described within this Investment Policy. Percentage allowances per this policy shall be determined by the overall portfolio size at book value on the close of the date any security is purchased. Permitted investments under this policy shall include:

1. Securities issued by the US Treasury, provided that
  - a. There shall be no restriction on the percentage of portfolio investment in US Treasury securities, and
  - b. The final maturity shall not exceed five years.
2. Securities issued and fully guaranteed as to payment by an agency, or issued by a government sponsored enterprise of the US Government, provided that
  - a. There shall be no restriction on the percentage of portfolio investment in US Government agencies and sponsored enterprises,
  - b. The final maturity shall not exceed five years, unless specifically authorized by the governing body, and
3. Bonds, notes, warrants or certificates of indebtedness issued by the state of California and all other 49 states, local agencies within California, or the County of Santa Barbara provided that
  - a. The maximum allowable portfolio investment in this category shall be 10%,
  - b. The final maturity shall not exceed five years.
4. Banker's acceptances provided that

- a. The maximum allowable portfolio investment in banker's acceptances shall be 40%,
  - b. The final maturity shall not exceed 180 days,
  - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
  - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
5. Commercial Paper provided that
  - a. The maximum allowable portfolio investment in commercial paper shall be 40%,
  - b. The final maturity shall not exceed 270 days,
  - c. The obligation is issued by a US corporation with total assets exceeding \$500 million,
  - d. The investment in paper of any one issuer may not exceed 10% of the outstanding debt of that issuer,
  - e. Maximum exposure to any one issuer (including MTNs, CP, and other obligations) shall be limited to 5% of the total portfolio, and
  - f. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
6. State of California Local Agency Investment Fund (LAIF) provided that
  - a. The County may invest up to the maximum amount permitted by LAIF, and
  - b. the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.
7. Managed investment pools pursuant to California Government Code 53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o) of Government Code Section 53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
  - a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  - b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o) Government Code Section 53601, inclusive.
  - c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

8. Negotiable certificates of deposit (NCDs) provided that
  - a. The maximum allowable portfolio investment in NCDs shall be 30%,
  - b. The final maturity shall not exceed one year,
  - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
  - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
  - e. The issuer shall be a national or state chartered bank or a licensed branch of one of the top 100 foreign banks.
9. Bank deposits (Non-negotiable certificates of deposit) which are fully collateralized with securities in accordance with California law, provided that
  - a. The maximum allowable portfolio investment in time non-negotiable certificates of deposit shall be 10%, and
  - b. The final maturity shall not exceed one year.
10. Repurchase agreements collateralized with securities authorized under XII.A.1. and XII.A.2 of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that
  - a. There shall be no restriction on the percentage of portfolio investment.
  - b. The maximum allowable portfolio investment in repurchase agreements shall be one year,
  - c. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association, and
  - d. The counterparty to the repurchase agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York and state chartered banks.
11. Securities lending and reverse repurchase agreements
  - a. The total of reverse repurchase agreements and securities that are subject to a securities lending agreement may not exceed 20% of the County's total portfolio,
  - b. To the extent that the County's authorized securities lending agent does not utilize the full 20% allocation, the County may enter into reverse repurchase agreements in accordance with the government code. The term to maturity of such reverse repurchase agreements may not exceed 92 days, and the maturity of securities purchased with the proceeds of reverse repos must match the maturity of the reverse repurchase agreement, and
  - c. The counterparty to the agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York.
12. Medium Term or Corporate Notes (MTNs) of United States corporations & Depository Institutions or Medium Term Notes of U.S. Corporations and

Depository Institutions issued under the Temporary Liquidity Guarantee Program, guaranteed by the Federal Deposit Insurance Corporation provided that

- a. The maximum allowable portfolio investment in MTNs shall be 30%,
- b. The final maturity shall not exceed 5 years,
- c. The maximum allowable portfolio investment in MTNs with maturity in excess of 3 years shall be 10%,
- d. The obligation shall be issued by a corporation organized and operating within the U.S. or by a depository institution licensed in the U.S. or any state and operating within the U.S.,
- e. Maximum exposure to any one issuer (including MTNs, CP and other obligations) shall be limited to 5% of the total portfolio, and
- f. The issuer of non-TLGP notes shall be rated AA by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is greater than 3 years and shall be rated AA- by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is 3 years or less. TLGP notes shall be rated AAA by one of the three major rating services.

13. Money Market Mutual Funds provided that

- a. The maximum allowable portfolio investment in Money Market Funds shall be 15%,
- b. The Fund is registered with the Securities and Exchange Commission,
- c. The Fund must have as one of its primary objectives that it will strive to maintain a \$1.00 net asset value and share price,
- d. The Fund shall have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of \$500 million, and
- e. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.

14. FDIC Insured Deposit Accounts authorized pursuant to California Government Code Sections 53601.8 and 53635.8.

- 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).
- b. A selected depository may use a private sector entity to help place deposits with one or more commercial bank or savings bank 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),
- d. The maximum exposure to the fund shall be no more than 10%,

- e. There is no minimum credit requirement for FDIC insured deposit accounts whether directly placed or placed through a private sector entity.

15. Supranationals

- a. The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multinational organizations.
- b. Permissible issuers for purposes of investment are International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB),
- c. The maximum maturity of an issue shall be 5 years,
- d. The maximum exposure to the fund for this category shall be 30%,
- e. The maximum exposure to a single issuer shall be 10% of the fund value, and
- f. The security must be rated AA by at least one rating agency from the following: Moody's, Standard & Poor's, or Fitch.

**B. Prohibited Investment and Practices**

- 1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than money market funds as described above), unregulated and/or un-rated investment pools or trusts, collateralized mortgage obligations and futures and options.
- 2. In accordance with Government Code Section 53601.6, investments in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- 3. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
- 4. Purchasing or selling securities on margin is prohibited.



### **XIII. PORTFOLIO RISK MANAGEMENT**

#### **A. Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Treasurer shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section XII (A) are designed to mitigate credit risk in the portfolio.
2. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and sponsored enterprises.
3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences.
4. If the securities owned by the County are downgraded by Moody's, S&P, or Fitch to a level below the quality required by this Investment Policy, it shall be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.
5. The Treasurer will continue to monitor and reevaluate the security on an ongoing basis in order to reaffirm or change the decision to hold a downgraded security.
6. If a decision is made to retain a downgraded security in the portfolio, the status of the investment will be reported quarterly to the Board of Supervisors.

#### **B. Mitigating Market Risk in the Portfolio**

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios generally achieve higher returns. On the other hand, longer-term portfolios have a higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, and securities with embedded options, will affect the market risk profile of the portfolio differently in

different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. All investments are categorized according to the period of time from settlement date to maturity date. Market circumstances and risk-return calculations for increased yield may require an extended schedule. In no event shall more than 75 percent of the funds available be invested for longer than one year.
2. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy. The five-year maturity of callable securities is measured to the final maturity date, not to a call date.
3. Maturity of investments should be governed by the Treasury's demand for funds through analysis of revenue and expenditure activity over prior periods. The portfolio shall be structured in such manner that securities mature concurrent with cash needs.

### **C. Mitigating Reinvestment Risk in the Portfolio**

Reinvestment risk is the risk that cash flows from securities will be reinvested at interest rates that are lower than the rate of the original investment. Securities that are highly subject to reinvestment risk include mortgage-backed and callable securities.

The County, therefore, adopts the following strategies to control and mitigate its exposure to reinvestment risk:

1. The portfolio shall include securities with a range of durations and maturities.
2. Mortgage-backed securities are prohibited.
3. Investment in callable securities is limited to 50%.

## **XIV. REPORTING AND DISCLOSURE**

### **A. Quarterly Reports**

The Treasurer shall submit a quarterly investment report to the Board of Supervisors, County Executive Office, Auditor-Controller and Treasury Oversight Committee within 30 days following the end of the quarter covered by the report. This report shall disclose, at a minimum, the following investment information:

1. The type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys;

2. A description of any funds, investments, or programs that are under the management of contracted parties, including lending programs;
3. A current market value as of the date of the report and the source of this valuation;
4. A statement of compliance with the investment policy or manner in which the portfolio is not in compliance;
5. A statement denoting that ability of the County to meet its expenditure requirements for the next six months or an explanation as to why sufficient money may not be available.

#### **B. Semi-Annual Reports**

The Treasurer shall submit a copy of the quarterly investment report, as submitted to the Board of Supervisors, to the California Debt and Investment Advisory Commission (CDIAC) twice a year. The quarterly report for the year ending June 30, shall be submitted no later than the end of August. The quarterly report for the period ending December 31, shall be submitted no later than the end of February.

#### **C. Annual Reports**

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

A copy of the investment policy shall be submitted to the California Debt and Investment Advisory Commission (CDIAC) each calendar year and within 60 days of any amendment to the investment policy.

Any internal or external audit reports shall be presented to the Treasury Oversight Committee, together with a plan of implementation of audit recommendations.

## **XV. TREASURY OVERSIGHT COMMITTEE**

The Board of Supervisors shall establish a Treasury Oversight Committee pursuant to Section 27131 of the California Government Code. The Committee shall consist of between three and eleven member nominated by the Treasurer and confirmed by the Board of Supervisors. Any changes to the Investment Policy Statement shall be reviewed by the Treasury Oversight Committee.

Pursuant to Section 53646 and 53607 of California Government Code, the Treasurer shall annually render to the Board of Supervisors for review and approval the Investment Policy Statement and renew the delegation of investment authority.

Pursuant to California Government Code Section 27137, the county treasury oversight committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

## **XVI. APPORTIONMENT OF EARNINGS AND COSTS**

Investment earnings shall be apportioned to all pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the investment pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. As provided by Sections 27013, 27133 and 27135 of the Government Code, the Treasurer shall deduct those administrative costs associated with investing, depositing, banking, auditing, reporting or otherwise handling or managing funds from the gross interest earnings before the interest earnings are apportioned.

## **XVII. VOLUNTARY PARTICIPANTS**

The Treasurer does not solicit any agency's voluntary entry into the Investment Pool. However, should any agency solicit entry, the agency shall comply with the requirements of section 53684 of the Government Code and provide to the Treasurer a resolution adopted by their governing board stating that they have excess funds available for the purpose of investment. The resolution shall specify the amount of monies to be invested, the person authorized to coordinate the transaction, the anticipated time frame for deposit, and the agency's willingness to be bound to the 30 day written notice requirement for withdrawals, as well as the Treasurer's ability to deduct pro-rata administrative charges permitted by Section XVII of this investment policy. Any solicitation for entry into the Investment Pool must have the Treasurer's prior written approval.

### **XVIII. PARTICIPANT WITHDRAWAL**

Before a local agency withdraws funds from the Investment Pool, it must submit a withdrawal request to the Treasurer. The Treasurer shall review the withdrawal request based on the size of the withdrawal, the remaining balances in the Investment Pool after the withdrawal, current market conditions, effect on cash flows, availability of funds, the circumstances involving the request, and whether the withdrawal would adversely affect other depositors in the Investment Pool. Exiting pool participants will not recognize posted GASB 31 fair market value gains or losses, except in extraordinary circumstances, as defined by the Treasurer at that time.

### **XIX. LEGISLATIVE CHANGES**

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated immediately into the Investment Policy.

## Appendix I

### AUTHORIZED INVESTMENT SUMMARY TABLE

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury Obligations	100%	None	Max 5 years	NA
Notes, participation's or obligations issued by an agency of the federal government or U.S. government sponsored enterprises	100%	None	Max 5 years	NA
Bonds, notes, warrants, or certificates of indebtedness issued by the state and all other 49 states, or local agencies, or County of Santa Barbara	10%	None	Max 5 year	NA
Bankers Acceptances among the 100 largest banks by size of deposits.	40%	Max 5% of portfolio per issuer	Max 180 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Commercial paper of U.S. corporations with total assets exceeding \$500,000,000	40%	Max 10% of outstanding paper of any one issuer & max 5% per any one issuer	Max 270 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
State of California- Local Agency Investment Fund (LAIF)	As limited by LAIF	As limited by LAIF	NA	NA
Managed Investment Pool pursuant to GC 53601(p)	As limited by each investment pool	As limited by each investment pool	NA	NA
Negotiable CDs issued by national or state chartered banks or a licensed branch of the top 100 foreign banks	30%	Max 5% of any one issuer	Max 1 year	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Collateralized Time Deposits	10%	As stipulated in Ca. Government Code 53630 et al	Max 1 year	NA
Repurchase Agreements with 102% collateral limited to U.S. treasuries & agencies with maturity not exceeding 5 yrs	100%	Contract must be on file	1 yr	Restricted to primary dealers and state chartered banks on eligible list
Reverse Repurchase Agreements	20%	Contract must be on file	92 days	Restricted to primary dealers on eligible list
Medium Term Notes or Corporate Notes on U.S. corporation	30%/ 10% in maturity greater than 3 years	Max 5% of any one issuer	Max 5 years	AA by at least 2 of the 3 rating agencies if more than 3 yrs; AA- up to 3 yrs. AAA if TLGP.
Money Market mutual funds that meet requirements of Ca. Government Code	15%	Registered with SEC; no NAV adjustments; no front end loads	Immediate liquidity	AAA by at least 2 of the 3 rating agencies
Callable Securities	50%	As above	As above	As above

FDIC Insured Deposit Accounts Authorized Under California Government Code Sections 53601.8 and 53635.8	10%	Max \$100MM per placement service	Immediate liquidity	Not Applicable
Suprationals	30%	As above	5 years	AA by at least 1 rating agency

## Appendix II

### GLOSSARY OF TERMS

**ACCRUED INTEREST** – The amount of interest that is earned, but unpaid since the last payment date.

**BANKERS ACCEPTANCES** – A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill. With the credit strength of a bank behind it, the bankers acceptance usually qualifies as a money market instrument. In its simplest and most traditional form, a bankers acceptance is merely a check drawn on a bank by an importer or exporter of goods.

**BASIS POINT** - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**BID** - The indicated price at which a buyer is willing to purchase a security or commodity.

**BOOK ENTRY** – The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment).

**BOOK VALUE** - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**BROKER/DEALER** – Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)**- The CDIAC provides information, education, and technical assistance on public debt and investments to local public agencies and other public finance professionals.

**CALLABLE BOND** - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**CALL PRICE** - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.



**CALL RISK** - The risk to a bondholder that a bond may be redeemed prior to maturity.

**CASH SALE/PURCHASE** - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

**COLLERATERALIZATION** - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**COMBINED INVESTMENT POOL** – The county maintains a combined Investment Pool with cash and investments which provide cash flow for the funding needs of the participants. The combined Investment Pool is managed by the Santa Barbara County Treasurer. The combined Investment Pool is carried at amortized cost and includes accrued interest.

**COMMERCIAL PAPER** - An unsecured short-term promissory note issued by banks, corporations and other borrowers with temporarily idle cash, with maturities ranging from 2 to 270 days. Such instruments are usually discounted, although some are interest bearing. It is issued only by top-rated concerns and is nearly always backed by bank lines of credit.

**CONFIRMATION** – Formal memorandum from a broker/dealer to the Treasurer giving the details of a securities transaction, i.e., purchase or sale.

**COUPON RATE** - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

**CREDIT QUALITY** - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**CREDIT RISK** - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CURRENT YIELD (CURRENT RETURN)** - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**CUSTODIAN/CUSTODY** – The financial institution where the investments purchased by the County Treasury are held.

**DELIVERY VERSUS PAYMENT (DVP)** - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**DERIVATIVE** - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**DISCOUNT** - The amount by which the par value of a security exceeds the price paid for the security.

**DIVERSIFICATION** – The spreading of risk by investing in assets among a range of security types by sector, maturity, and quality rating.

**DURATION** - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**EARNINGS APPORTIONMENT** – The quarterly interest distribution to the Investment Pool participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Investment Pool.

**FAIR VALUE** - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL FUNDS** - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**FEDERAL FUNDS RATE** - Interest rate charged by one institution lending Federal funds to the other.

**FITCH IBCA, INC. (FITCH)** – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Standard and Poor's Corporation (S & P). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

**GUARANTEED INVESTMENT CONTRACTS (GICS)** – An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**GOVERNMENT SECURITIES** - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

**HIGHLY LIQUID** – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

**IDLE FUNDS** – funds in the combined Investment Pool not required for immediate cash needs.

**ILLIQUID** – A security that is difficult to buy or sell or has a wide spread between bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

**INFORMAL COMPETITIVE BID** – A verbal or written bid submitted to the County Treasury by a broker/dealer for a specific issue at a specific price or yield.

**INTEREST RATE** - See "Coupon Rate."

**INTEREST RATE RISK** - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**INTERNAL CONTROLS** - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should 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.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

5. **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.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**INVERTED YIELD CURVE** - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**INVESTMENT POLICY** - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**INVESTMENT-GRADE OBLIGATIONS** - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**LIQUID** - An asset that can be converted easily and quickly into cash because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

**LOCAL AGENCY INVESTMENT FUND (LAIF)** - The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

**LOCAL AGENCY OBLIGATION** - An indebtedness issued by a local agency, department, board, or authority within the State of California.

**LONG-TERM** - A security with the maturity greater than one year.

**MARK-TO-MARKET** - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**MARKET RISK** - The risk that the value of a security will rise or decline as a result of changes in market conditions.

**MARKET VALUE** – The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

**MATURITY** - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

**MEDIUM TERM NOTES** – Corporate Notes and Deposit Notes that are obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

**MONEY MARKET MUTUAL FUND** - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**MOODY'S INVESTORS SERVICE, INC. (Moody's)** - One of the three best known rating agencies in the United States, the others being Standard and Poor's Corporation (S & P) and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

**MUTUAL FUND** - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

**NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD)** - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**NEGOTIABLE CERTIFICATE OF DEPOSIT** – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in the secondary markets.

**NET ASSET VALUE** - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

**NO LOAD FUND** - A mutual fund which does not levy a sales charge on the purchase of its shares.

**NOMINAL YIELD** - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**NONCALLABLE** – A bond that is exempt from any kind of redemption for a stated time period.

**NOTE** – A written promise to pay a specific amount to a certain entity on demand or on a specified date.

**OFFER** - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

**PAR** - Face value or principal value of a bond, typically \$1,000 per bond.

**PORTFOLIO** – Combined holding of more than one stock, bond, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

**POSITIVE YIELD CURVE** - A chart formation that illustrates short-term securities having lower yields than long-term securities.

**PREMIUM** - The amount by which the price paid for a security exceeds the security's par value.

**PRIMARY DEALER** – A group of securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers and banks.

**PRIME RATE** - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**PRINCIPAL** - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

**PROSPECTUS** - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

**PRUDENT INVESTOR RULE** - An investment standard where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is met is if a prudent person acting in such a situation would engage in similar conduct to ensure investments safeguard principal and maintain liquidity.

**PUT OPTION** – The sale of an option to another party giving them the right to sell to the Investment Pool a security at a specified price within a specified time period.

**RATING** – Evaluation of financial institutions' investment and credit risks by professional rating services. The County Treasury utilizes the ratings designations of Moody's, S&P and Fitch.

**REGISTERED STATE WARRANT** – A short-term obligation of a state governmental body issued in anticipation of revenue.

**REGULAR WAY DELIVERY** - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

**REINVESTMENT RISK** - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**REPURCHASE AGREEMENT (REPO)** - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO)** - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

**SAFEKEEPING** – A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

**SECURITIES AND EXCHANGE COMMISSION (SEC)** – Agency created by Congress to protect investors in securities transactions by administering securities laws. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities market.

**SECURITIES LENDING** – A transaction wherein the Investment Pool 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.

**SERIAL BOND** - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

**SHORT-TERM** – A security with a maturity one year or less.

**STANDARD AND POOR’S CORPORATION (S&P)** – One of the three best known rating agencies in the United States, the others being Moody’s Investment Service, Inc. (Moody’s), and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

**SWAP** - Trading one asset for another.

**TOTAL RETURN** - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

**TREASURY BILLS** - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**TREASURY NOTES** - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from \$1,000 to \$1 million or more.

**TREASURY BONDS** - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of \$1,000. Currently, the longest outstanding maturity for such securities is 30 years.

**VOLATILITY** - A degree of fluctuation in the price and valuation of securities.



**WEIGHTED AVERAGE MATURITY (WAM)** - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**WHEN ISSUED (WI)** - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

**YIELD** - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**YIELD-TO-CALL (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**YIELD-TO-MATURITY** - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**ZERO-COUPON SECURITIES** - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Treasurer - Tax Collector  
**Department No.:** 065  
**For Agenda Of:** 02/26/2019  
**Placement:** Administrative  
**Estimated Tme:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Harry E. Hagen, CPA, CPFA, CPFO, ACPFIM, CFIP, CGIP,  
Director(s) Treasurer - Tax Collector *H. H.*  
568-2490  
Contact Info: Jennifer C. Christensen, JD MBA CPFO CFIP, Chief Investment  
Officer  
568-2925

**SUBJECT:** Treasurer's Investment Pool, FY 2018-2019 Second Quarter (Oct-Dec 2018)

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**County Counsel Concurrence**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: N/A

**Other Concurrence:**

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors:

Accept for filing the Fiscal Year 2018-2019 Second Quarter (October – December 2018) report on the Treasurer's Investment Pool, pursuant to Government Code section 53646(b).

**Summary Text:**

The value of the Treasurer's Investment Pool at principal cost on December 31, 2018, was \$1,593,223,753. Market value of the investment pool was \$1,589,330,973. The weighted average days-to-maturity (WAM) for the investment pool was 321 days.

The Treasurer's Investment Pool earned \$5,855,293 for the quarter ending December 31, 2018, an annualized return of 1.661%. The net yield earned over the past year is 1.510%. Per Government Code Section 53600.5, the Santa Barbara County Treasurer has a mandated responsibility to manage and invest public funds with the primary objective of safeguarding principal, the secondary objective of meeting the liquidity needs of pool participants, and thirdly, the objective of attaining a market average rate of return, consistent with the primary objectives of safety and liquidity.

For the quarter ending December 31, 2018, the Treasurer's Investment Pool anticipated and met all liquidity requirements, precluding any need to sell holdings unexpectedly at a potential loss in order to meet cash flow demands.

All investments purchased, met or exceeded state and local policy requirements for credit quality. Credit quality of assets held in the Treasurer's Investment Pool is monitored on an ongoing basis.

The Santa Barbara County Treasurer conforms to all applicable State statutes and County resolutions that govern the investment of public funds.

**Background:**

This quarterly report is being submitted to you pursuant to California Government Code section 53646 (b). In addition, California Government Code section 53646 (b) (3) requires the Treasurer-Tax Collector to include a statement in the Treasurer's Report affirming the ability of the Santa Barbara County Investment Pool to meet expenditure requirements for the next six months.

This report was reviewed and discussed by the Treasury Oversight Committee at its quarterly meeting. The Treasury Oversight committee promotes the public interest and is governed by California Government Code sections 27130 through 27133.

**Performance Measure:**

To ensure the financial stability of the County, monitor and project liquidity requirements as evidenced by zero securities sold at a loss to meet cash flow needs of pool participants: Accomplished.

To ensure the financial stability of the County and secure public agency funds, all investments stay within compliance 100% of the time with the Government Code and the Treasurer's Investment Policy: Accomplished.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

For the quarter ending December 31, 2018, net investment earnings achieved by the Treasurer's Investment Pool were \$5,855,293, with the County receiving 40.9%, Schools 49.9%, and Special Districts the balance of 9.2%. The net yield earned for the quarter on an annualized basis is 1.661% and over the past year is 1.510%

**Attachments:**

Treasurer's Second Quarter Investment Pool Report (October – December 2018)

**Authored by:**

Jennifer C. Christensen, JD MBA CPFO CFIP, Chief Investment Officer

**SANTA BARBARA COUNTY**

**TREASURER'S REPORT TO THE BOARD OF SUPERVISORS AND  
THE TREASURY OVERSIGHT COMMITTEE**

**FOR THE QUARTER ENDED December 31, 2018**

## **ECONOMIC TREND**

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- **The Federal Open Market Committee (Committee) decided to raise the target federal funds rate to the target range of 2.25% to 2.5% at its December meeting. The Committee indicated that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Household spending has continued to grow strongly, and both overall inflation and inflations for items other than food and energy remain near 2 percent on a 12-month basis.**
- **As summarized in the Beige Book issued January 19, 2019, economic activity increased in most of the U.S., with eight of twelve Federal Reserve Districts reporting modest to moderate growth. The majority of Districts indicated that manufacturing expanded, but that growth has slowed, particularly in the auto and energy sectors. Outlooks generally remained positive, but many Districts reported that contacts had become less optimistic in response to increased financial market volatility, rising short-term interest rates, falling energy prices, and elevated trade and political uncertainty.**
- **All Districts noted that labor markets were tight and that firms were struggling to find workers at any skill level. Wages grew throughout the country, with the majority of Districts reporting moderate gains. Wages increased across skill levels, and numerous Districts highlighted rising entry-level wages as firms sought to attract and retain workers and as new minimum wage laws came into effect.**

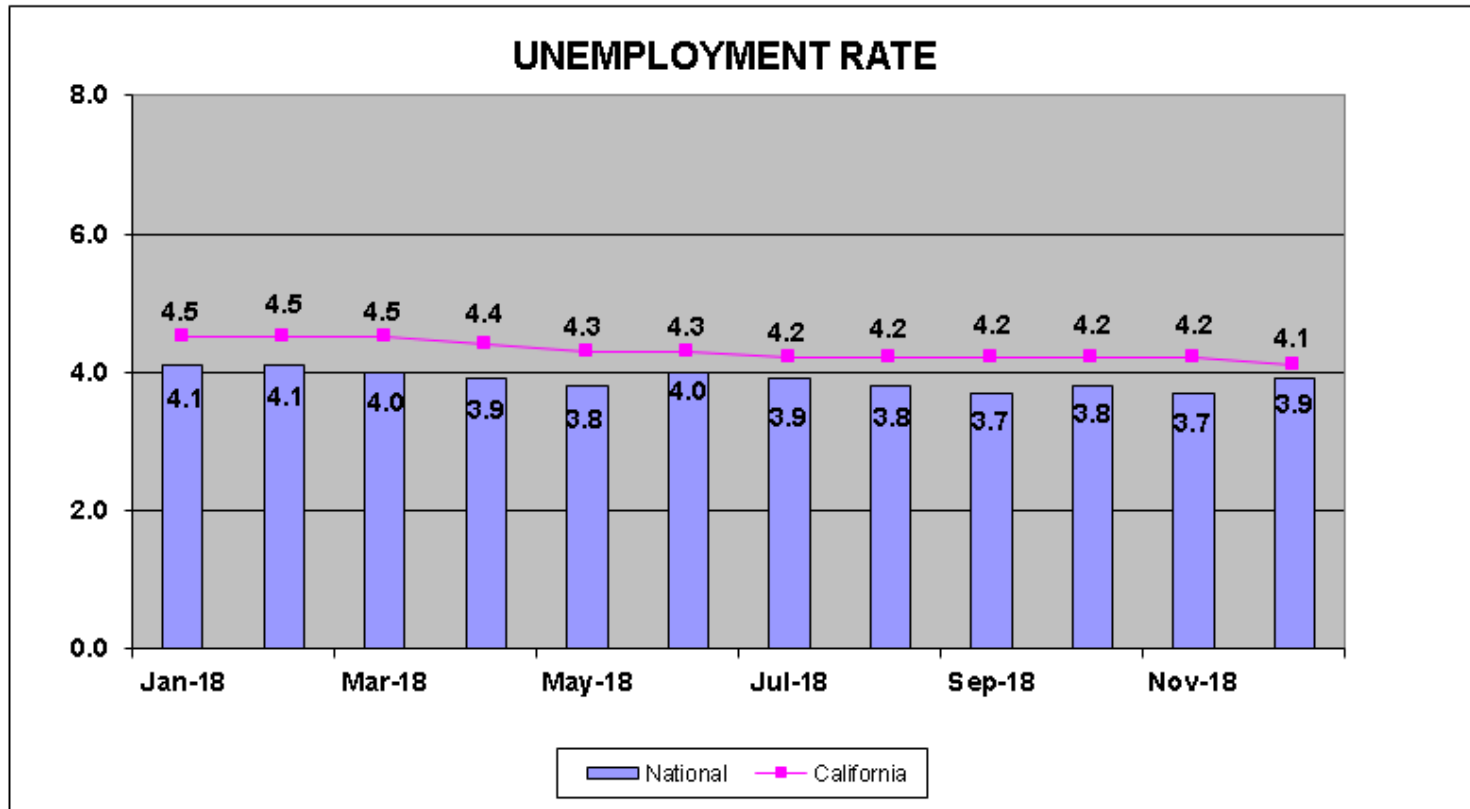
## **INVESTMENT ACTIVITIES**

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- **The investment portfolio is in compliance with the Government Code and the Treasurer's Investment Policy.**
- **The Treasurer's Investment Pool has sufficient cash flow available to meet all budgeted expenditures for the next six months.**

## ECONOMIC TREND: Unemployment Rate

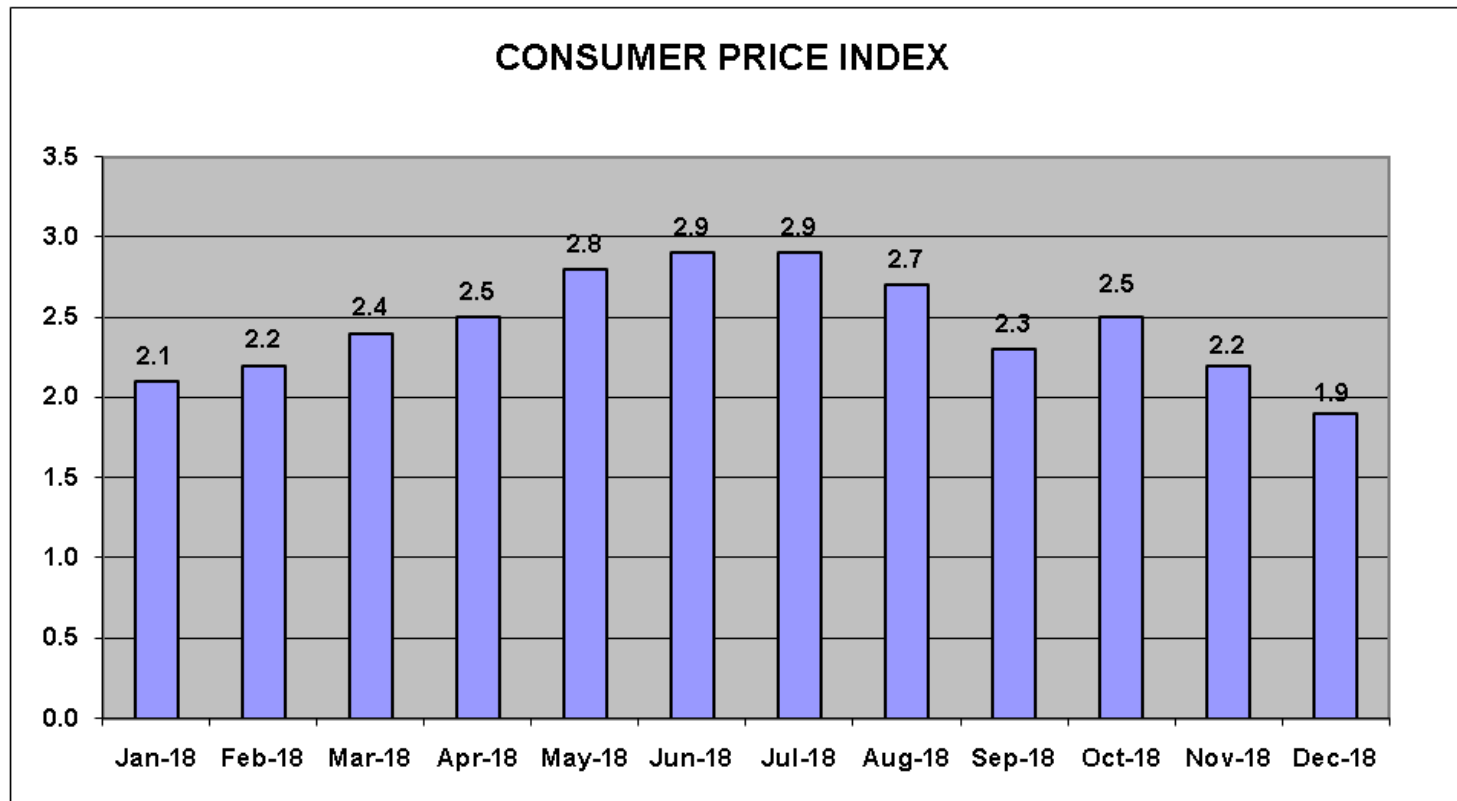
The unemployment rate represents the number of unemployed persons as a percent of the labor force. The sampling used each month to calculate the rate is approximately 60,000 households. The national unemployment rate began the quarter at 3.7% and ended the quarter at 3.9%. California's preliminary unemployment rate was 4.1% in December.



Source: Bureau of Labor Statistics

## ECONOMIC TREND: Inflation

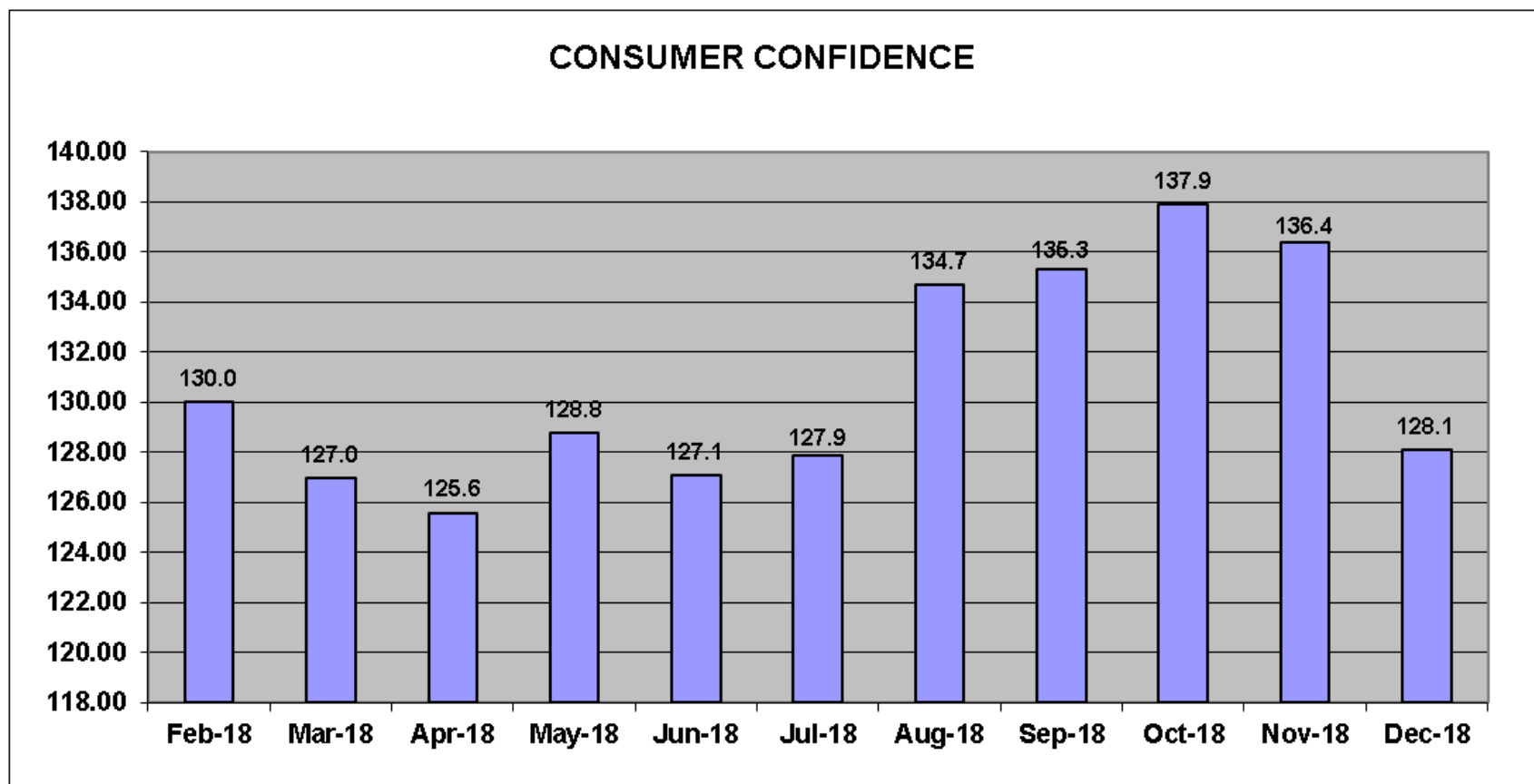
*The Consumer Price Index (CPI) represents changes in prices of all goods and services purchased for consumption by urban households. CPI was 1.9% at the end of December. The Core CPI, which excludes food and energy, was 2.2% at the end of December.*



Source: Bureau of Labor Statistics

## ECONOMIC TREND: Consumer Confidence

*Consumer Confidence is the average of responses to current business and employment conditions and responses to six-month future expectations for business conditions, employment conditions, and total family income. It began the quarter at 135.3 and ended at 128.1.*

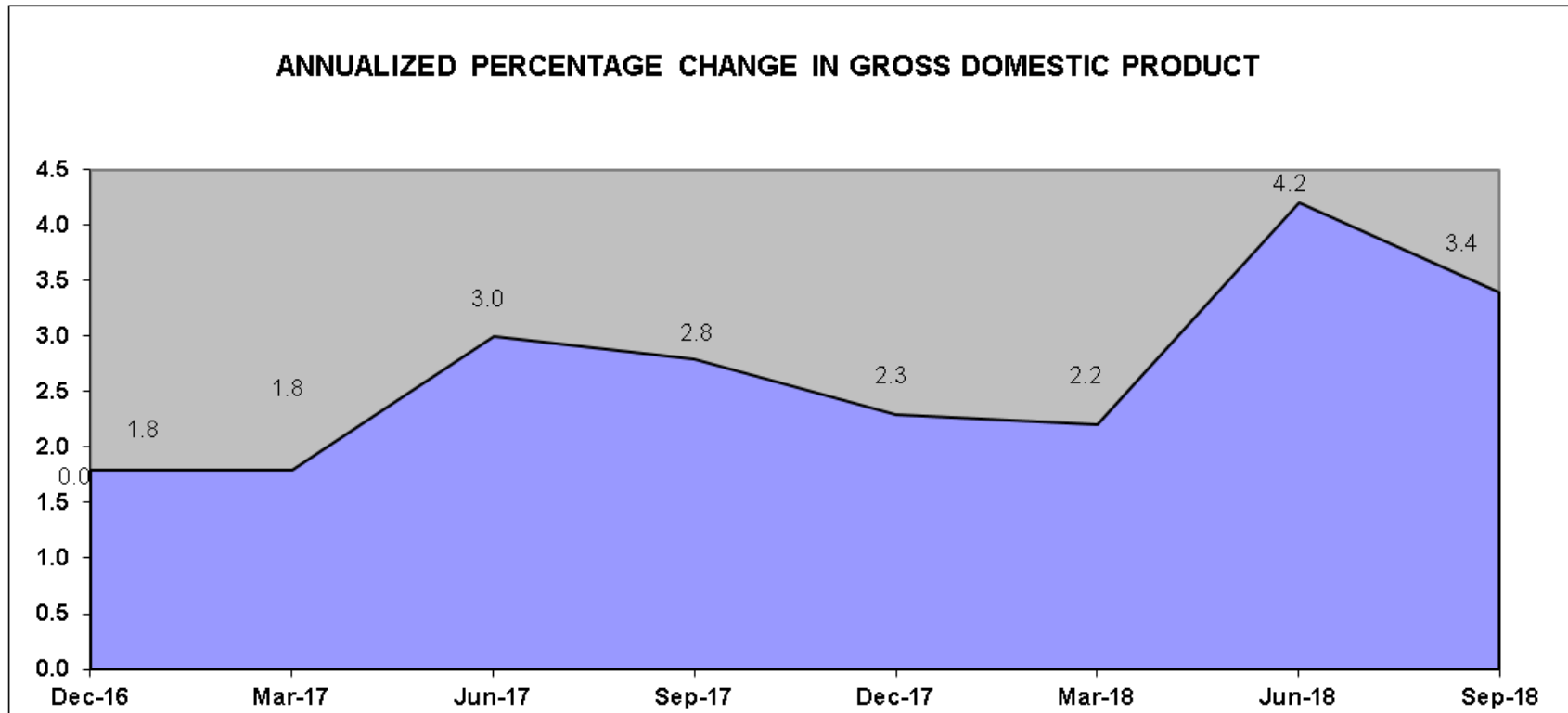


Source: Conference Board



## ECONOMIC TREND: GDP (Gross Domestic Product)

Gross domestic product is the value of all goods and services produced. After eighteen consecutive quarters of growth, the economy experienced its first quarter in negative territory ending March 2014 at -0.9%. Subsequently, the economy continued to recover. For the most recent quarter ending September 30, 2018, the economy reported GDP at 3.4%.



Source: Bureau of Economic Analysis

**Santa Barbara County Treasurer's Investment Pool  
Statement of Assets  
As of December 31, 2018**

Asset Description	Cost	Net Unrealized Holding Gains/(Losses)	Fair Value* 12/31/2018	Percent of Portfolio	Yield to Maturity	Weighted Average Days to Maturity	Fair Value* 9/30/2018	Net Change
Cash	\$ 58,652,956	\$ -	\$ 58,652,956	3.69	1.020	1	\$ 37,004,496	\$ 21,648,460
California Asset Management Program (CAMP)	140,000,000	-	140,000,000	8.81	2.400	1	80,000,000	60,000,000
Local Agency Investment Fund (LAIF)	65,000,000	-	65,000,000	4.09	2.210	1	65,000,000	-
Federally Insured Cash Account (FICA)	20,000,000	-	\$ 20,000,000	1.26	2.160	1	\$ -	20,000,000
U.S. Treasury Bills	158,130,728	\$ 710,872	158,841,600	9.99	2.407	108	69,299,150	89,542,450
U.S. Treasury Notes	192,788,086	(203,786)	192,584,300	12.12	1.787	377	201,579,450	(8,995,150)
Government Agency Bonds	240,365,661	(1,499,791)	238,865,870	15.03	1.696	404	217,983,237	20,882,633
Government Agency Discount Notes	218,178,005	1,522,395	219,700,400	13.82	2.381	102	102,084,640	117,615,760
Government Agency Bonds - Callable	500,108,318	(4,422,470)	495,685,847	31.19	1.764	604	516,587,492	(20,901,645)
<b>Total</b>	<b>\$ 1,593,223,753</b>	<b>\$ (3,892,780)</b>	<b>\$ 1,589,330,973</b>	<b>100.00</b>	<b>1.957</b>	<b>321</b>	<b>\$ 1,289,538,465</b>	<b>\$ 299,792,508</b>

\*Provided by Union Bank

**Treasurer's Pool Earnings Summary:**

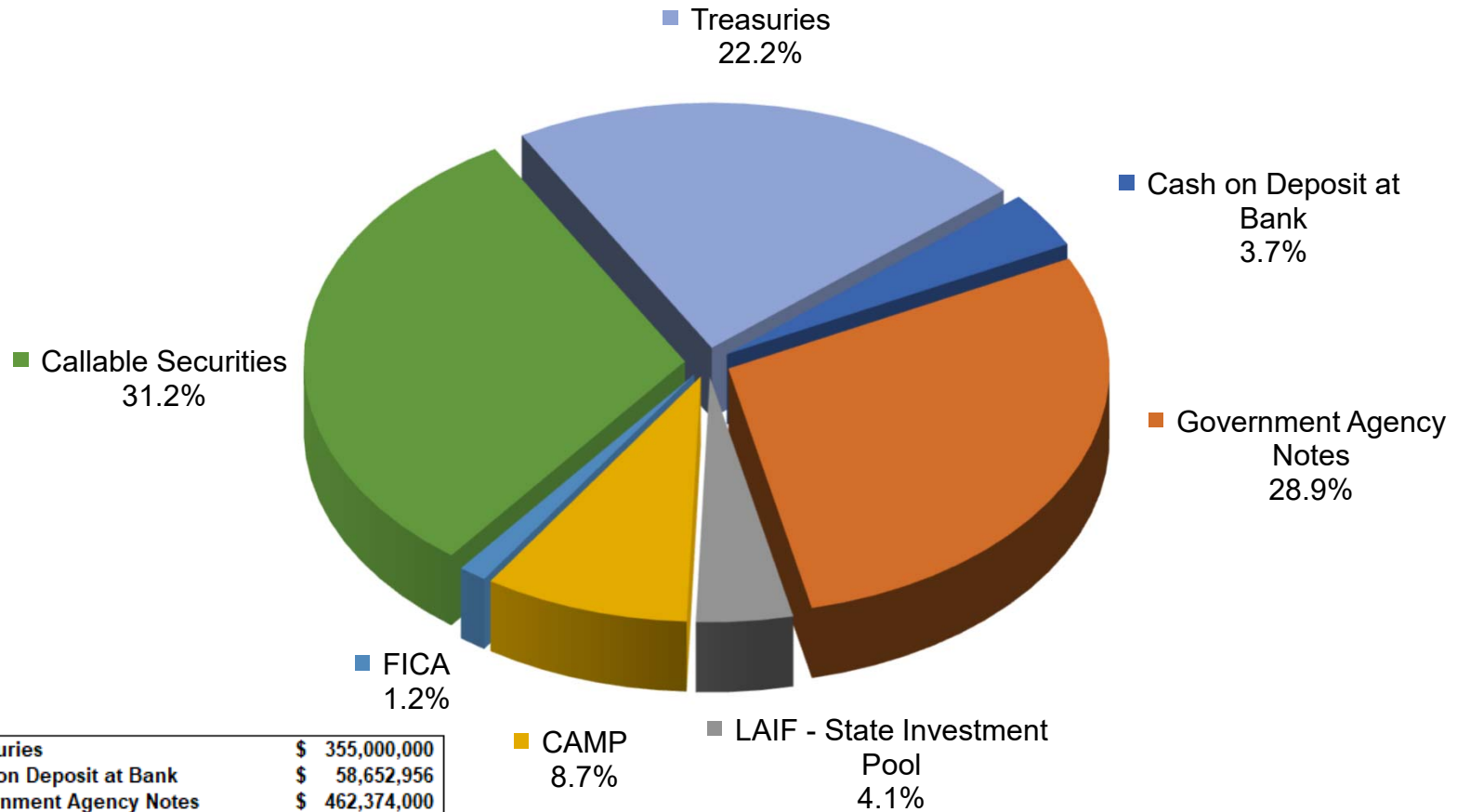
Total Net Earnings on the Treasurer's Pool**	\$ 5,855,293
Average Daily Balance on the Treasurer's Pool	\$ 1,398,939,537
Net Interest Rate on the Treasurer's Pool	1.661%

\*\*Total net earnings including earned interest, amortization and realized gains and losses on investments.

Asset Description	Cost	Net Unrealized Holding Gains/(Losses)	Fair Value*** 12/31/2018	Percent of Portfolio	Yield to Maturity	Weighted Average Days to Maturity	Fair Value*** 9/30/2018	Net Change
Cannabis Cash***	\$ 2,151,409	\$ -	\$ 2,151,409	0.00	1.020	1	\$ 143,738	\$ 2,007,671
<b>Total</b>	<b>\$ 2,151,409</b>	<b>\$ -</b>	<b>\$ 2,151,409</b>	<b>0.00</b>	<b>1.020</b>	<b>1</b>	<b>\$ 143,738</b>	<b>\$ 2,007,671</b>

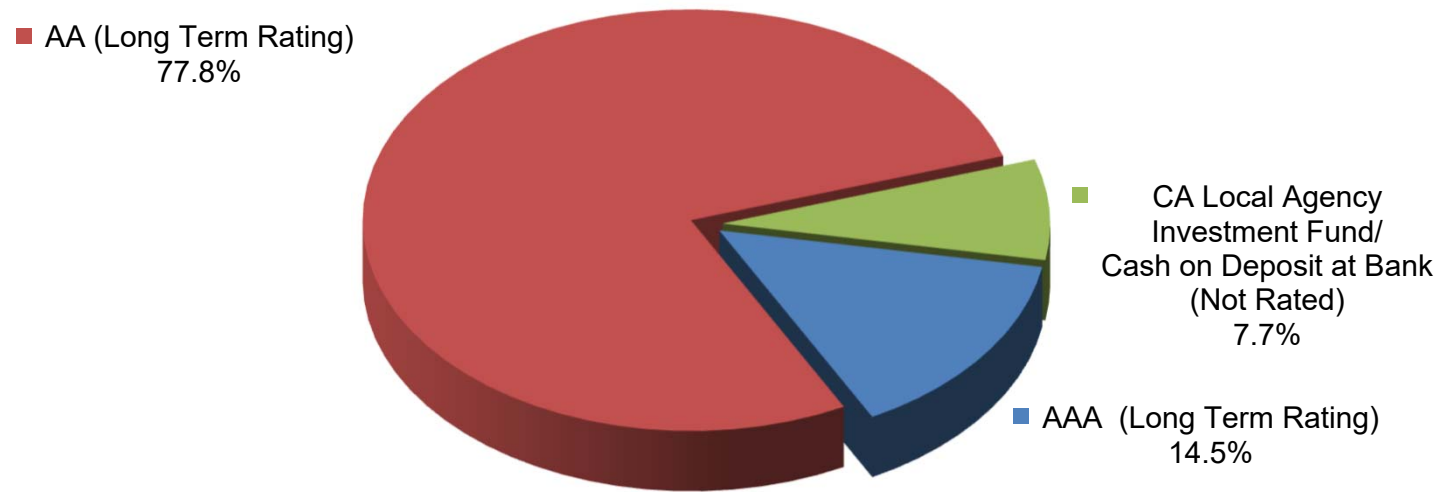
\*\*\*Proceeds from Cannabis operations are segregated from the Investment Pool and do not receive Investment Pool interest apportionment.

## TREASURER'S INVESTMENT POOL ASSET DISTRIBUTION BY SECTOR (PAR VALUE) 12/31/2018



Treasuries	\$ 355,000,000
Cash on Deposit at Bank	\$ 58,652,956
Government Agency Notes	\$ 462,374,000
LAIF - State Investment Pool	\$ 65,000,000
CAMP	\$ 140,000,000
FICA	\$ 20,000,000
Callable Securities	\$ 500,993,000
<b>TOTAL</b>	<b>\$1,602,019,956</b>

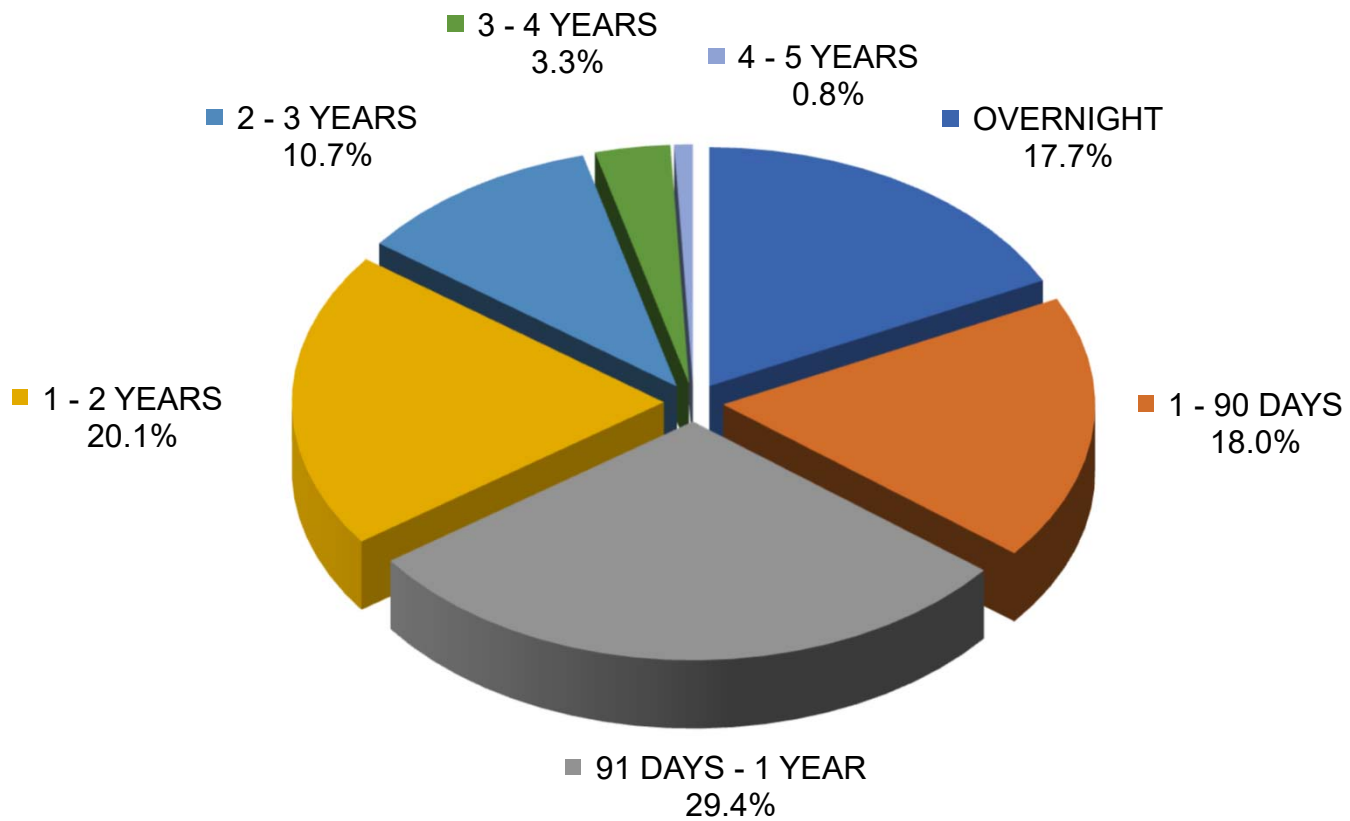
## S&P CREDIT RATING AT TIME OF PURCHASE BY PERCENT OF BOOK VALUE 12/31/2018



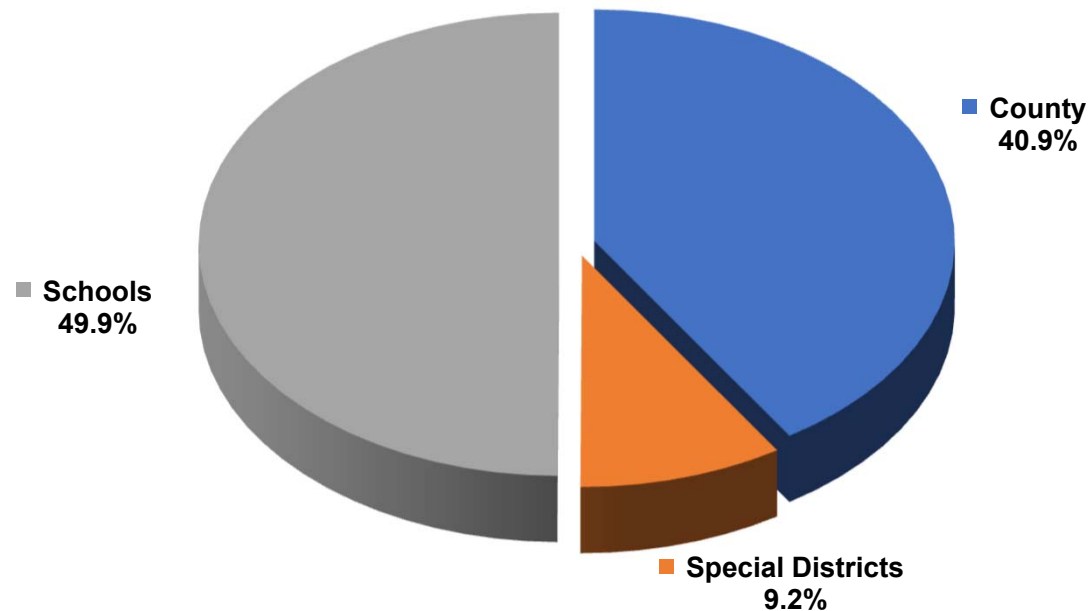
### Investment Policy Requirements:

- US Treasuries: N/A
- Agency of the Federal Government/US Government Sponsored: N/A
- Commercial Paper of US Corporations, Assets Greater Than \$500 million: A1, P1, F1 (by two of the three rating agencies)
- State of California - LAIF/Managed Investment Pools: N/A
- Negotiable CD's: A1, P1, F1 (by two of the three rating agencies)
- Medium Term Notes/Corporate Notes of US Corporations: Up to three years: AA- by at least two of the three rating agencies. Greater than three years: AA by at least two of the three rating agencies.

**TREASURER'S INVESTMENT POOL  
MATURITY DISTRIBUTION  
12/31/2018**

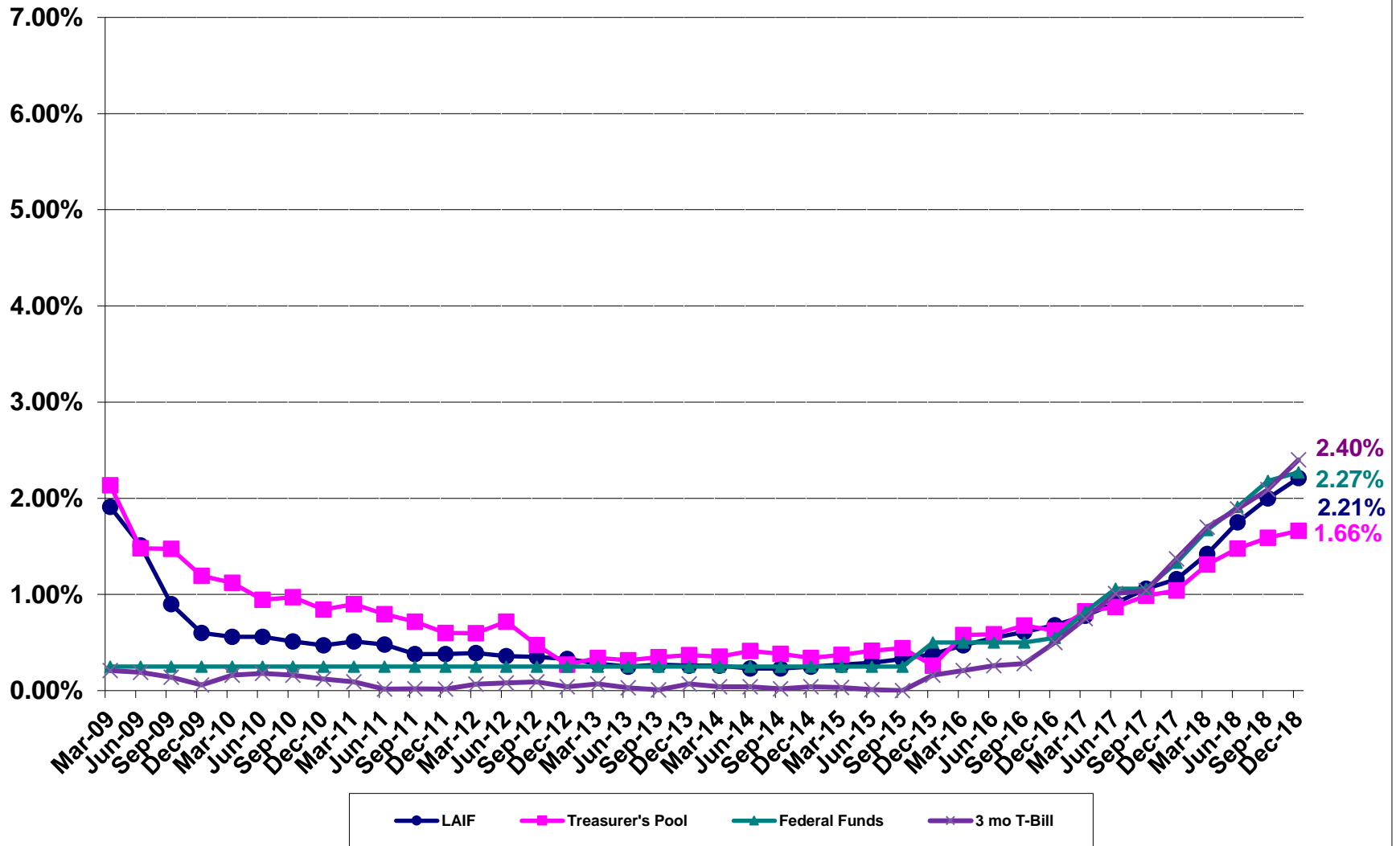


## TREASURER'S INVESTMENT POOL AVERAGE DAILY CASH BALANCE & INCOME DISTRIBUTION FOR THE QUARTER ENDED 12/31/2018



The average daily cash balance of all entities in the pool during the quarter was \$1,398,939,537. Aggregate interest earnings of \$5,855,293 was distributed to pool participants.

**TREASURER'S INVESTMENT POOL  
 QUARTERLY PERFORMANCE VERSUS SELECTED BENCHMARKS  
 12/31/2018**



**County Pool 2018-2019  
Portfolio Management  
Portfolio Details - Investments  
December 31, 2018**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Cash</b>												
SYS5495	5495	Bank of America Corp.			58,652,956.00	58,652,956.00	58,652,956.00	1.020		1.020	1	
<b>Subtotal and Average</b>			<b>637,532.13</b>		<b>58,652,956.00</b>	<b>58,652,956.00</b>	<b>58,652,956.00</b>			<b>1.020</b>	<b>1</b>	
<b>FICA</b>												
SYS6255	6255	FICA			20,000,000.00	20,000,000.00	20,000,000.00	2.160	AAA	2.160	1	
<b>Subtotal and Average</b>			<b>20,108,695.65</b>		<b>20,000,000.00</b>	<b>20,000,000.00</b>	<b>20,000,000.00</b>			<b>2.160</b>	<b>1</b>	
<b>CAMP</b>												
SYS5272	5272	CAMP			140,000,000.00	140,000,000.00	140,000,000.00	2.400	AAA	2.400	1	
<b>Subtotal and Average</b>			<b>82,282,608.70</b>		<b>140,000,000.00</b>	<b>140,000,000.00</b>	<b>140,000,000.00</b>			<b>2.400</b>	<b>1</b>	
<b>Local Agency Investment Funds</b>												
SYS1009	1009	LAIF			65,000,000.00	65,000,000.00	65,000,000.00	2.210		2.210	1	
<b>Subtotal and Average</b>			<b>65,000,000.00</b>		<b>65,000,000.00</b>	<b>65,000,000.00</b>	<b>65,000,000.00</b>			<b>2.210</b>	<b>1</b>	
<b>Federal Agency Coupon Securities</b>												
3133EFZN0	6040	Federal Farm Credit Bank		02/12/2016	4,000,000.00	3,994,440.00	4,000,000.00	1.030	AA	1.030	42	02/12/2019
3133EGR98	6184	Federal Farm Credit Bank		12/07/2016	5,000,000.00	4,920,350.00	5,000,000.00	2.020		2.020	980	09/07/2021
3133EG2S3	6227	Federal Farm Credit Bank		01/03/2017	5,000,000.00	4,999,850.00	4,999,994.03	1.280	AA	1.302	2	01/03/2019
3133EG3X1	6235	Federal Farm Credit Bank		01/17/2017	5,000,000.00	4,997,700.00	5,000,000.00	1.250		1.250	16	01/17/2019
3133EG5Q4	6270	Federal Farm Credit Bank		03/29/2017	5,300,000.00	5,295,866.00	5,299,875.11	1.300	AA	1.328	31	02/01/2019
3133EHHB2	6355	Federal Farm Credit Bank		04/27/2017	5,000,000.00	4,930,000.00	4,996,033.33	1.450	AA	1.512	482	04/27/2020
3133EHJG9	6375	Federal Farm Credit Bank		05/15/2017	5,000,000.00	4,980,050.00	4,999,906.94	1.400		1.405	134	05/15/2019
3133EHKH5	6392	Federal Farm Credit Bank		05/23/2017	5,000,000.00	4,923,100.00	4,998,718.25	1.570		1.587	569	07/23/2020
3133EHMR1	6422	Federal Farm Credit Bank		06/12/2017	5,000,000.00	4,973,600.00	5,000,000.00	1.375	AA	1.375	162	06/12/2019
3133EHRL9	6459	Federal Farm Credit Bank		07/19/2017	5,000,000.00	4,929,950.00	5,000,000.00	2.000	AA	2.000	930	07/19/2021
3133EHSV6	6468	Federal Farm Credit Bank		07/27/2017	5,000,000.00	4,992,550.00	5,000,000.00	1.350		1.350	57	02/27/2019
3133EHUK7	6478	Federal Farm Credit Bank		08/14/2017	5,000,000.00	4,963,750.00	5,000,000.00	1.400	AA	1.400	225	08/14/2019
3133EHUK7	6486	Federal Farm Credit Bank		08/21/2017	5,000,000.00	4,963,750.00	5,000,000.00	1.400	AA	1.400	225	08/14/2019
3133EHYJ6	6508	Federal Farm Credit Bank		09/12/2017	5,000,000.00	4,957,200.00	4,999,302.78	1.375	AA	1.395	254	09/12/2019
3133EHVX8	6517	Federal Farm Credit Bank		09/18/2017	5,000,000.00	4,912,650.00	4,994,328.31	1.500	AA	1.571	601	08/24/2020
3133EHZA4	6523	Federal Farm Credit Bank		09/20/2017	5,000,000.00	4,880,000.00	4,989,122.22	1.660	AA	1.743	993	09/20/2021
3133EHB69	6565	Federal Farm Credit Bank		10/03/2017	5,000,000.00	4,977,700.00	5,000,000.00	1.450	AA	1.450	153	06/03/2019
3133EFVQ7	6571	Federal Farm Credit Bank		10/24/2017	5,000,000.00	4,997,200.00	4,999,203.13	1.250	AA	1.526	21	01/22/2019
3133EHJ95	6574	Federal Farm Credit Bank		10/26/2017	5,000,000.00	4,925,600.00	4,999,393.52	1.750		1.757	664	10/26/2020



**County Pool 2018-2019  
Portfolio Management  
Portfolio Details - Investments  
December 31, 2018**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Federal Agency Coupon Securities</b>												
3133EHZ89	6595	Federal Farm Credit Bank		12/05/2017	5,000,000.00	4,971,300.00	5,000,000.00	1.750		1.751	247	09/05/2019
3133EH6L2	6633	Federal Farm Credit Bank		01/10/2018	5,000,000.00	4,971,700.00	4,997,437.50	1.950		2.001	374	01/10/2020
3133EJAD1	6641	Federal Farm Credit Bank		01/23/2018	5,000,000.00	4,953,850.00	4,996,202.67	2.150		2.190	722	12/23/2020
3133EJXV6	6718	Federal Farm Credit Bank		08/28/2018	5,000,000.00	5,011,650.00	4,996,247.82	2.700		2.736	784	02/23/2021
3130A6UX3	6004	Federal Home Loan Bank		12/28/2015	5,000,000.00	4,973,200.00	5,000,000.00	1.500	AA	1.500	178	06/28/2019
3130AAUP1	6251	Federal Home Loan Bank		03/02/2017	5,000,000.00	4,991,050.00	4,999,007.85	1.250	AA	1.385	55	02/25/2019
3130ABUN4	6518	Federal Home Loan Bank		09/18/2017	5,000,000.00	4,940,750.00	5,000,000.00	1.520	AA	1.520	423	02/28/2020
3130A66T9	6526	Federal Home Loan Bank		09/21/2017	5,000,000.00	4,922,700.00	5,000,000.00	1.625	AA	1.625	619	09/11/2020
313380FB8	6533	Federal Home Loan Bank		09/22/2017	5,000,000.00	4,955,050.00	4,995,746.84	1.375		1.499	255	09/13/2019
3130ABY34	6588	Federal Home Loan Bank		11/29/2017	5,000,000.00	4,935,150.00	4,983,800.44	1.613	AA	1.849	514	05/29/2020
3130AAE46	6640	Federal Home Loan Bank		01/18/2018	5,000,000.00	4,997,500.00	4,998,773.00	1.250		1.847	15	01/16/2019
3130ADVE9	6675	Federal Home Loan Bank		03/21/2018	5,000,000.00	4,996,100.00	4,999,633.33	2.125		2.159	79	03/21/2019
3137EADK2	5971	Federal Home Loan Mortgage Co.		11/06/2015	5,000,000.00	4,958,400.00	4,993,801.49	1.250	AA	1.469	212	08/01/2019
3137EADK2	5984	Federal Home Loan Mortgage Co.		12/01/2015	5,000,000.00	4,958,400.00	4,992,498.86	1.250	AA	1.515	212	08/01/2019
3137EADM8	6030	Federal Home Loan Mortgage Co.		01/27/2016	5,000,000.00	4,948,350.00	4,997,647.92	1.250	AA	1.314	274	10/02/2019
3134GA3Q5	6248	Federal Home Loan Mortgage Co.		02/28/2017	1,840,000.00	1,813,964.00	1,840,000.00	2.050		2.050	1,154	02/28/2022
3134GBJF0	6357	Federal Home Loan Mortgage Co.		04/27/2017	5,000,000.00	4,909,300.00	5,000,000.00	1.800	AA	1.800	938	07/27/2021
3137EAEH8	6460	Federal Home Loan Mortgage Co.		07/19/2017	5,000,000.00	4,959,850.00	4,997,793.03	1.375	AA	1.447	226	08/15/2019
3134GBU83	6577	Federal Home Loan Mortgage Co.		10/30/2017	5,000,000.00	4,929,650.00	5,000,000.00	2.000		2.000	1,032	10/29/2021
3134GBP55	6622	Federal Home Loan Mortgage Co.		12/20/2017	5,000,000.00	4,915,800.00	4,965,279.37	2.000	AAA	2.220	1,211	04/26/2022
3137EADM8	6623	Federal Home Loan Mortgage Co.		12/20/2017	5,000,000.00	4,948,350.00	4,976,213.63	1.250	AA	1.895	274	10/02/2019
3137EAEJ4	6625	Federal Home Loan Mortgage Co.		12/22/2017	5,000,000.00	4,921,750.00	4,966,615.85	1.625		2.020	637	09/29/2020
3137EAEH8	6753	Federal Home Loan Mortgage Co.		12/04/2018	5,000,000.00	4,959,850.00	4,960,465.34	1.375	AA	2.664	226	08/15/2019
3137EADK2	6773	Federal Home Loan Mortgage Co.		12/19/2018	5,000,000.00	4,958,400.00	4,959,418.92	1.250	AA	2.661	212	08/01/2019
3136G1CL1	6187	Federal Nat'l Mtg. Assoc.		12/07/2016	5,000,000.00	4,942,250.00	4,999,875.85	1.500	AA	1.502	415	02/20/2020
3135G0J20	6190	Federal Nat'l Mtg. Assoc.		12/09/2016	5,000,000.00	4,878,150.00	4,960,713.58	1.375	AA	1.755	787	02/26/2021
3135G0P49	6206	Federal Nat'l Mtg. Assoc.		12/16/2016	5,000,000.00	4,946,700.00	4,981,822.69	1.000	AA	1.566	239	08/28/2019
3135G0P49	6294	Federal Nat'l Mtg. Assoc.		04/11/2017	5,000,000.00	4,946,700.00	4,985,343.06	1.000	AA	1.456	239	08/28/2019
3135G0T60	6496	Federal Nat'l Mtg. Assoc.		08/29/2017	5,000,000.00	4,917,350.00	4,998,917.22	1.500	AA	1.514	576	07/30/2020
3135G0T60	6603	Federal Nat'l Mtg. Assoc.		12/11/2017	5,000,000.00	4,917,350.00	4,965,824.03	1.500	AA	1.945	576	07/30/2020
<b>Subtotal and Average</b>			<b>233,041,320.01</b>		<b>241,140,000.00</b>	<b>238,865,870.00</b>	<b>240,784,957.95</b>			<b>1.696</b>	<b>404</b>	
<b>Federal Agency Disc. -Amortizing</b>												
313312AB6	6676	FC Discount Note		03/22/2018	5,000,000.00	5,000,000.00	4,999,715.28	2.050		2.105	1	01/02/2019
313312BP4	6678	FC Discount Note		03/23/2018	5,000,000.00	4,988,000.00	4,989,465.28	2.050		2.108	37	02/07/2019
313312FA3	6704	FC Discount Note		06/08/2018	10,000,000.00	9,919,000.00	9,925,333.33	2.240		2.307	120	05/01/2019

**County Pool 2018-2019  
Portfolio Management  
Portfolio Details - Investments  
December 31, 2018**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Federal Agency Disc. -Amortizing</b>												
313312BQ2	6751	FC Discount Note		12/04/2018	5,000,000.00	4,987,650.00	4,987,597.22	2.350		2.393	38	02/08/2019
313312FF2	6752	FC Discount Note		12/04/2018	5,000,000.00	4,957,800.00	4,956,770.83	2.490	AAA	2.552	125	05/06/2019
313312CQ1	6763	FC Discount Note		12/11/2018	5,000,000.00	4,979,500.00	4,979,419.44	2.390		2.437	62	03/04/2019
313312FS4	6764	FC Discount Note		12/12/2018	5,000,000.00	4,954,050.00	4,953,155.56	2.480	AAA	2.542	136	05/17/2019
313312NV8	6759	Fed Farm Crd Discount Note		12/07/2018	5,000,000.00	4,892,050.00	4,885,727.78	2.680		2.769	307	11/04/2019
313312JT8	6765	Fed Farm Crd Discount Note		12/12/2018	10,000,000.00	9,856,700.00	9,850,216.66	2.580		2.652	209	07/29/2019
313384AD1	6629	FHLB Disc Corp		01/05/2018	5,000,000.00	4,999,350.00	4,999,250.00	1.800		1.850	3	01/04/2019
313384CR8	6670	FHLB Disc Corp		03/07/2018	5,000,000.00	4,979,150.00	4,981,975.00	2.060		2.122	63	03/05/2019
313384CZ0	6673	FHLB Disc Corp		03/15/2018	5,000,000.00	4,976,450.00	4,979,488.89	2.080		2.143	71	03/13/2019
313384DA4	6674	FHLB Disc Corp		03/19/2018	5,000,000.00	4,976,150.00	4,979,000.00	2.100		2.163	72	03/14/2019
313384BG3	6683	FHLB Disc Corp		04/05/2018	6,919,000.00	6,905,715.52	6,907,237.70	2.040		2.096	30	01/31/2019
313384FR5	6701	FHLB Disc Corp		05/25/2018	10,000,000.00	9,908,800.00	9,915,625.00	2.250		2.320	135	05/16/2019
313384CD9	6702	FHLB Disc Corp		05/30/2018	10,000,000.00	9,966,700.00	9,969,541.67	2.150		2.207	51	02/21/2019
313384CB3	6703	FHLB Disc Corp		05/30/2018	5,000,000.00	4,984,000.00	4,985,368.06	2.150		2.207	49	02/19/2019
313384HC6	6710	FHLB Disc Corp		06/21/2018	7,000,000.00	6,918,870.00	6,923,972.22	2.300		2.373	170	06/20/2019
313384FV6	6711	FHLB Disc Corp		06/20/2018	10,000,000.00	9,906,100.00	9,911,966.67	2.280		2.349	139	05/20/2019
313384HP7	6714	FHLB Disc Corp		08/20/2018	4,315,000.00	4,261,494.00	4,263,583.18	2.370	AAA	2.441	181	07/01/2019
313384ER6	6715	FHLB Disc Corp		08/24/2018	3,000,000.00	2,977,620.00	2,979,095.00	2.260	AAA	2.320	111	04/22/2019
313384MK2	6733	FHLB Disc Corp		10/15/2018	5,000,000.00	4,904,800.00	4,901,416.67	2.600		2.687	273	10/01/2019
313384BE8	6741	FHLB Disc Corp		11/30/2018	5,000,000.00	4,991,100.00	4,990,938.89	2.330	AAA	2.372	28	01/29/2019
313384CT4	6745	FHLB Disc Corp		11/30/2018	5,000,000.00	4,978,500.00	4,978,604.16	2.370	AAA	2.418	65	03/07/2019
313384BP3	6746	FHLB Disc Corp		12/03/2018	5,000,000.00	4,988,000.00	4,987,872.22	2.360	AAA	2.403	37	02/07/2019
313384DM8	6757	FHLB Disc Corp		12/07/2018	5,000,000.00	4,972,450.00	4,972,448.61	2.390		2.441	83	03/25/2019
313384BT5	6761	FHLB Disc Corp		12/10/2018	5,000,000.00	4,986,650.00	4,986,390.28	2.390	AAA	2.433	41	02/11/2019
313384DE6	6762	FHLB Disc Corp		12/11/2018	5,000,000.00	4,974,800.00	4,974,666.67	2.400		2.449	76	03/18/2019
313384CS6	6767	FHLB Disc Corp		12/13/2018	10,000,000.00	9,957,700.00	9,957,511.11	2.390		2.437	64	03/06/2019
313384EY1	6768	FHLB Disc Corp		12/14/2018	5,000,000.00	4,960,350.00	4,959,683.33	2.460		2.518	118	04/29/2019
313384FA2	6769	FHLB Disc Corp		12/14/2018	5,000,000.00	4,959,500.00	4,959,000.00	2.460		2.518	120	05/01/2019
313384CM9	6770	FHLB Disc Corp		12/17/2018	5,000,000.00	4,980,500.00	4,980,456.25	2.385		2.430	59	03/01/2019
313384FG9	6774	FHLB Disc Corp		12/19/2018	5,000,000.00	4,957,450.00	4,956,775.00	2.470		2.528	126	05/07/2019
313384FC8	6775	FHLB Disc Corp		12/20/2018	5,000,000.00	4,958,850.00	4,958,316.67	2.460		2.517	122	05/03/2019
313384GP8	6776	FHLB Disc Corp		12/20/2018	5,000,000.00	4,946,500.00	4,945,922.22	2.480	AAA	2.544	157	06/07/2019
313384FC8	6777	FHLB Disc Corp		12/20/2018	5,000,000.00	4,958,850.00	4,958,231.94	2.465		2.522	122	05/03/2019
313384FN4	6778	FHLB Disc Corp		12/20/2018	5,000,000.00	4,955,450.00	4,954,716.67	2.470		2.529	132	05/13/2019
313396DH3	6758	Freddie Discount		12/07/2018	5,000,000.00	4,973,800.00	4,973,995.84	2.370	AAA	2.419	79	03/21/2019
<b>Subtotal and Average</b>			<b>128,332,757.42</b>		<b>221,234,000.00</b>	<b>219,700,399.52</b>	<b>219,720,451.30</b>			<b>2.381</b>	<b>102</b>	

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Treasury Coupon Securities</b>												
912828TC4	5964	U.S. Treasury		10/28/2015	5,000,000.00	4,962,500.00	4,997,483.22	1.000		1.104	180	06/30/2019
912828TR1	5965	U.S. Treasury		10/28/2015	5,000,000.00	4,940,800.00	4,993,326.94	1.000		1.184	272	09/30/2019
912828TH3	5966	U.S. Treasury		10/28/2015	5,000,000.00	4,951,950.00	4,992,430.64	0.875		1.143	211	07/31/2019
912828SD3	5973	U.S. Treasury		11/10/2015	5,000,000.00	4,995,700.00	4,999,641.87	1.250		1.339	30	01/31/2019
912828L65	6167	U.S. Treasury		11/18/2016	5,000,000.00	4,901,750.00	4,983,761.95	1.375	AAA	1.567	638	09/30/2020
912828L65	6168	U.S. Treasury		11/18/2016	5,000,000.00	4,901,750.00	4,983,761.95	1.375	AAA	1.567	638	09/30/2020
912828J84	6191	U.S. Treasury		12/09/2016	5,000,000.00	4,926,550.00	4,994,114.76	1.375		1.472	455	03/31/2020
912828XE5	6192	U.S. Treasury		12/09/2016	5,000,000.00	4,926,550.00	4,997,458.63	1.500		1.537	516	05/31/2020
912828R44	6197	U.S. Treasury		12/13/2016	5,000,000.00	4,970,500.00	4,993,123.58	0.875		1.256	134	05/15/2019
912828SX9	6198	U.S. Treasury		12/13/2016	5,000,000.00	4,971,900.00	4,997,392.94	1.125		1.254	150	05/31/2019
912828S27	6216	U.S. Treasury		12/23/2016	10,000,000.00	9,678,500.00	9,793,817.23	1.125		1.993	911	06/30/2021
912828XH8	6217	U.S. Treasury		12/23/2016	5,000,000.00	4,932,400.00	4,993,692.85	1.625		1.712	546	06/30/2020
912828R85	6221	U.S. Treasury		12/27/2016	5,000,000.00	4,963,500.00	4,988,756.51	0.875		1.382	165	06/15/2019
912828R77	6284	U.S. Treasury		04/06/2017	5,000,000.00	4,871,500.00	4,953,236.83	1.375		1.779	881	05/31/2021
912828P53	6290	U.S. Treasury		04/10/2017	5,000,000.00	4,990,300.00	4,996,827.62	0.750		1.273	45	02/15/2019
912828SD3	6291	U.S. Treasury		04/10/2017	5,000,000.00	4,995,700.00	4,999,911.36	1.250		1.272	30	01/31/2019
912828W30	6560	U.S. Treasury		09/29/2017	10,000,000.00	9,979,900.00	9,996,099.80	1.125		1.373	58	02/28/2019
912828S43	6561	U.S. Treasury		09/29/2017	5,000,000.00	4,952,150.00	4,982,296.44	0.750		1.423	195	07/15/2019
912828T34	6590	U.S. Treasury		11/29/2017	5,000,000.00	4,822,450.00	4,889,116.73	1.125		1.967	1,003	09/30/2021
912828T67	6591	U.S. Treasury		11/29/2017	5,000,000.00	4,833,200.00	4,905,228.70	1.250		1.949	1,034	10/31/2021
912828S76	6592	U.S. Treasury		11/29/2017	5,000,000.00	4,831,050.00	4,897,847.48	1.125		1.949	942	07/31/2021
912828L32	6600	U.S. Treasury		12/08/2017	5,000,000.00	4,905,650.00	4,958,907.98	1.375		1.884	608	08/31/2020
912828XM7	6604	U.S. Treasury		12/11/2017	5,000,000.00	4,929,100.00	4,980,807.86	1.625		1.875	577	07/31/2020
912828H52	6611	U.S. Treasury		12/12/2017	5,000,000.00	4,927,750.00	4,968,547.18	1.250		1.846	395	01/31/2020
912828N63	6639	U.S. Treasury		01/18/2018	5,000,000.00	4,997,950.00	4,998,610.15	1.125		1.860	14	01/15/2019
912828V31	6646	U.S. Treasury		02/06/2018	5,000,000.00	4,936,900.00	4,963,197.39	1.375		2.102	379	01/15/2020
912828W22	6647	U.S. Treasury		02/06/2018	5,000,000.00	4,931,050.00	4,958,823.16	1.375		2.128	410	02/15/2020
912828D80	6657	U.S. Treasury		02/12/2018	5,000,000.00	4,967,000.00	4,986,447.73	1.625		2.043	242	08/31/2019
912828G4	6659	U.S. Treasury		02/12/2018	5,000,000.00	4,938,300.00	4,960,795.73	0.875		2.014	257	09/15/2019
912828SH4	6666	U.S. Treasury		03/02/2018	5,000,000.00	4,991,850.00	4,994,445.16	1.375		2.085	58	02/28/2019
912828K5	6685	U.S. Treasury		04/06/2018	10,000,000.00	9,931,600.00	9,952,191.89	1.375		2.216	211	07/31/2019
912828VP2	6695	U.S. Treasury		04/12/2018	5,000,000.00	4,958,800.00	4,970,787.66	2.000		2.381	577	07/31/2020
912828D23	6724	U.S. Treasury		09/21/2018	5,000,000.00	4,985,950.00	4,987,379.81	1.625		2.404	119	04/30/2019
912828X7	6730	U.S. Treasury		10/05/2018	5,000,000.00	4,953,700.00	4,952,925.35	1.375		2.663	272	09/30/2019
912828X7	6731	U.S. Treasury		10/05/2018	5,000,000.00	4,953,700.00	4,953,072.92	1.375		2.659	272	09/30/2019
912828XS4	6732	U.S. Treasury		10/09/2018	5,000,000.00	4,974,400.00	4,974,333.94	1.250		2.514	150	05/31/2019

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CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Subtotal and Average</b>			<b>205,992,393.75</b>		<b>195,000,000.00</b>	<b>192,584,300.00</b>	<b>193,890,601.94</b>			<b>1.787</b>	<b>377</b>	
<b>Treasury Discounts -Amortizing</b>												
912796PP8	6689	U.S. Treasury		04/10/2018	5,000,000.00	4,990,800.00	4,991,958.33	1.930		1.981	30	01/31/2019
912796QS1	6712	U.S. Treasury		07/16/2018	10,000,000.00	9,995,000.00	9,994,750.00			2.152	9	01/10/2019
912796QX0	6716	U.S. Treasury		08/28/2018	5,000,000.00	4,985,700.00	4,986,738.89	2.170		2.223	44	02/14/2019
912796QX0	6717	U.S. Treasury		08/28/2018	5,000,000.00	4,985,700.00	4,986,738.89	2.170		2.223	44	02/14/2019
912796QR3	6719	U.S. Treasury		08/29/2018	5,000,000.00	4,932,300.00	4,935,650.00	2.340		2.411	198	07/18/2019
912796QU6	6720	U.S. Treasury		09/14/2018	5,000,000.00	4,993,050.00	4,993,004.17	2.190		2.238	23	01/24/2019
912796QZ5	6721	U.S. Treasury		09/19/2018	5,000,000.00	4,978,850.00	4,979,416.67	2.280		2.337	65	03/07/2019
912796QW2	6722	U.S. Treasury		09/19/2018	5,000,000.00	4,988,200.00	4,988,540.28	2.230		2.281	37	02/07/2019
912796QU6	6723	U.S. Treasury		09/20/2018	10,000,000.00	9,986,100.00	9,985,880.56	2.210		2.258	23	01/24/2019
912796RA9	6725	U.S. Treasury		09/25/2018	5,000,000.00	4,911,650.00	4,912,158.34	2.490		2.572	254	09/12/2019
912796QH5	6728	U.S. Treasury		09/27/2018	5,000,000.00	4,952,450.00	4,952,765.28	2.395		2.460	142	05/23/2019
912796RJ0	6734	U.S. Treasury		11/08/2018	5,000,000.00	4,959,800.00	4,959,246.53	2.425		2.488	121	05/02/2019
912796RP6	6735	U.S. Treasury		11/13/2018	5,000,000.00	4,957,000.00	4,956,533.33	2.445		2.509	128	05/09/2019
912796QH5	6736	U.S. Treasury		11/27/2018	5,000,000.00	4,952,450.00	4,951,581.95	2.455		2.520	142	05/23/2019
912796PX1	6737	U.S. Treasury		11/28/2018	5,000,000.00	4,972,000.00	4,971,763.33	2.364		2.416	86	03/28/2019
912796RJ0	6738	U.S. Treasury		11/28/2018	5,000,000.00	4,959,800.00	4,959,330.56	2.420		2.479	121	05/02/2019
912796RR2	6739	U.S. Treasury		11/29/2018	5,000,000.00	4,950,150.00	4,948,988.20	2.465		2.531	149	05/30/2019
912796RP6	6742	U.S. Treasury		11/30/2018	5,000,000.00	4,957,000.00	4,956,622.22	2.440		2.501	128	05/09/2019
912796PT0	6743	U.S. Treasury		11/30/2018	5,000,000.00	4,981,150.00	4,981,351.39	2.315		2.361	58	02/28/2019
912796RJ0	6747	U.S. Treasury		12/03/2018	5,000,000.00	4,959,800.00	4,958,977.64	2.441		2.500	121	05/02/2019
912796RR2	6748	U.S. Treasury		12/04/2018	5,000,000.00	4,950,150.00	4,948,781.25	2.475		2.540	149	05/30/2019
912796RH4	6749	U.S. Treasury		12/04/2018	5,000,000.00	4,964,750.00	4,963,813.19	2.435		2.492	107	04/18/2019
912796RR2	6750	U.S. Treasury		12/04/2018	5,000,000.00	4,950,150.00	4,948,781.25	2.475		2.540	149	05/30/2019
912796QC6	6754	U.S. Treasury		12/06/2018	5,000,000.00	4,962,250.00	4,961,525.00	2.430		2.487	114	04/25/2019
912796QZ5	6755	U.S. Treasury		12/06/2018	5,000,000.00	4,978,850.00	4,978,694.44	2.360		2.407	65	03/07/2019
912796RS0	6756	U.S. Treasury		12/07/2018	5,000,000.00	4,947,350.00	4,946,375.00	2.475		2.541	156	06/06/2019
912796RF8	6760	U.S. Treasury		12/07/2018	5,000,000.00	4,901,700.00	4,900,027.09	2.553		2.631	282	10/10/2019
912796RU5	6766	U.S. Treasury		12/13/2018	5,000,000.00	4,945,050.00	4,943,855.55	2.480		2.546	163	06/13/2019
912796RS0	6771	U.S. Treasury		12/18/2018	5,000,000.00	4,947,350.00	4,946,862.50	2.453		2.516	156	06/06/2019
912796RU5	6772	U.S. Treasury		12/19/2018	5,000,000.00	4,945,050.00	4,944,647.91	2.445		2.509	163	06/13/2019
<b>Subtotal and Average</b>			<b>102,412,533.86</b>		<b>160,000,000.00</b>	<b>158,841,600.00</b>	<b>158,835,359.74</b>			<b>2.407</b>	<b>108</b>	
<b>Federal Agency Coupon - Callables</b>												
3133EFWX1	6033	Federal Farm Credit Bank		01/28/2016	5,000,000.00	4,996,400.00	4,999,906.25	1.270	AA	1.296	27	01/28/2019

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<b>Federal Agency Coupon - Callables</b>												
3133EF2L0	6063	Federal Farm Credit Bank		04/13/2016	5,000,000.00	4,921,800.00	5,000,000.00	1.400	AA	1.400	468	04/13/2020
3133EF3P0	6067	Federal Farm Credit Bank		04/20/2016	6,003,000.00	5,904,010.53	6,002,100.77	1.490	AA	1.500	566	07/20/2020
3133EGAE5	6088	Federal Farm Credit Bank		05/18/2016	5,000,000.00	4,935,600.00	4,998,492.59	1.360		1.388	413	02/18/2020
3133EGDW2	6099	Federal Farm Credit Bank		06/08/2016	5,000,000.00	4,928,300.00	5,000,000.00	1.520		1.520	524	06/08/2020
3133EGEU5	6101	Federal Farm Credit Bank		06/14/2016	5,000,000.00	4,900,300.00	5,000,000.00	1.540	AA	1.540	713	12/14/2020
3133EGHP3	6112	Federal Farm Credit Bank		06/29/2016	5,000,000.00	4,915,900.00	5,000,000.00	1.420		1.420	545	06/29/2020
3133EGJR7	6118	Federal Farm Credit Bank		07/05/2016	5,000,000.00	4,961,550.00	5,000,000.00	1.020	AAA	1.020	185	07/05/2019
3133EGA62	6158	Federal Farm Credit Bank		11/04/2016	5,000,000.00	4,937,650.00	4,999,094.71	1.160	AA	1.182	304	11/01/2019
3133EG4F9	6237	Federal Farm Credit Bank		01/19/2017	5,000,000.00	4,938,450.00	4,999,743.75	1.930	AA	1.933	749	01/19/2021
3133EHEJ8	6313	Federal Farm Credit Bank		04/18/2017	5,000,000.00	4,956,100.00	5,000,000.00	1.625	AAA	1.625	367	01/03/2020
3133EJCK3	6656	Federal Farm Credit Bank		02/12/2018	5,600,000.00	5,583,872.00	5,600,000.00	2.470	AA	2.470	773	02/12/2021
3133EJCG2	6660	Federal Farm Credit Bank		02/14/2018	5,000,000.00	4,999,900.00	5,000,000.00	2.730	AA	2.730	1,140	02/14/2022
3130A7RA5	6068	Federal Home Loan Bank		04/22/2016	5,000,000.00	4,908,050.00	5,000,000.00	1.650		1.650	752	01/22/2021
3130AANA2	6240	Federal Home Loan Bank		01/30/2017	5,000,000.00	4,939,100.00	5,000,000.00	1.750	AA	1.750	576	07/30/2020
3130AB3T1	6342	Federal Home Loan Bank		04/24/2017	5,000,000.00	4,939,550.00	5,000,000.00	1.750	AA	1.750	570	07/24/2020
3130ABNQ5	6440	Federal Home Loan Bank		06/29/2017	5,000,000.00	4,931,300.00	4,996,274.37	1.625	AA	1.677	542	06/26/2020
3130ABVU7	6469	Federal Home Loan Bank		07/27/2017	5,000,000.00	4,927,150.00	5,000,000.00	1.625	AA	1.625	573	07/27/2020
3130AC6P4	6483	Federal Home Loan Bank		08/17/2017	5,000,000.00	4,901,450.00	5,000,000.00	2.160		2.160	1,324	08/17/2022
3130ABB21	6489	Federal Home Loan Bank		08/23/2017	5,000,000.00	4,965,100.00	4,999,290.04	1.375		1.400	206	07/26/2019
3130A6JG3	6525	Federal Home Loan Bank		09/21/2017	5,000,000.00	4,945,000.00	4,999,372.97	1.700	AA	1.710	469	04/14/2020
3130ACGC2	6548	Federal Home Loan Bank		09/27/2017	5,000,000.00	4,957,550.00	4,998,891.67	1.500	AA	1.531	269	09/27/2019
3130ACGC2	6549	Federal Home Loan Bank		09/27/2017	5,000,000.00	4,957,550.00	5,000,000.00	1.500	AA	1.500	269	09/27/2019
3130ACDU5	6563	Federal Home Loan Bank		09/29/2017	1,960,000.00	1,923,740.00	1,957,262.10	1.800	AA	1.859	910	06/29/2021
3130ACHQ0	6570	Federal Home Loan Bank		10/19/2017	5,000,000.00	4,927,850.00	4,997,600.00	1.750	AA	1.778	657	10/19/2020
3130ACKD5	6572	Federal Home Loan Bank		10/24/2017	5,000,000.00	4,914,350.00	5,000,000.00	2.250	AA	2.250	1,392	10/24/2022
3130ACN83	6578	Federal Home Loan Bank		10/30/2017	5,000,000.00	4,942,500.00	4,998,380.33	1.700	AA	1.724	500	05/15/2020
3130ACUK8	6587	Federal Home Loan Bank		11/28/2017	5,000,000.00	4,928,000.00	5,000,000.00	2.000		2.000	878	05/28/2021
3130ACV43	6602	Federal Home Loan Bank		12/08/2017	4,250,000.00	4,192,752.50	4,245,023.81	2.125		2.167	1,060	11/26/2021
3130ACNM2	6605	Federal Home Loan Bank		12/11/2017	5,000,000.00	4,897,900.00	4,985,309.83	2.280		2.362	1,394	10/26/2022
3130ACZE7	6609	Federal Home Loan Bank		12/12/2017	5,000,000.00	4,958,050.00	5,000,000.00	2.000		2.000	528	06/12/2020
3130ACN83	6621	Federal Home Loan Bank		12/19/2017	5,000,000.00	4,942,500.00	4,983,457.27	1.700	AA	1.947	500	05/15/2020
3130AD6W7	6630	Federal Home Loan Bank		01/05/2018	5,000,000.00	4,947,800.00	4,997,795.71	2.510	AA	2.522	1,458	12/29/2022
3130ADFV9	6642	Federal Home Loan Bank		01/29/2018	5,000,000.00	4,971,000.00	5,000,000.00	2.250		2.250	759	01/29/2021
3130ADC26	6643	Federal Home Loan Bank		01/29/2018	5,000,000.00	4,957,350.00	5,000,000.00	2.200	AA	2.200	759	01/29/2021
3130ADCP5	6669	Federal Home Loan Bank		03/07/2018	5,540,000.00	5,515,014.60	5,491,875.71	2.350	AA	2.650	1,120	01/25/2022
3130ADG48	6672	Federal Home Loan Bank		03/08/2018	5,000,000.00	4,968,800.00	4,972,839.19	2.250	AA	2.522	759	01/29/2021

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<b>Federal Agency Coupon - Callables</b>												
3130ADU83	6677	Federal Home Loan Bank		03/22/2018	5,000,000.00	4,999,300.00	4,998,145.83	2.650	AA	2.667	811	03/22/2021
3130ADG48	6690	Federal Home Loan Bank		04/10/2018	5,000,000.00	4,968,800.00	4,972,200.20	2.250	AA	2.528	759	01/29/2021
3130AE4Y3	6700	Federal Home Loan Bank		04/30/2018	5,000,000.00	4,997,300.00	5,000,000.00	2.540		2.540	485	04/30/2020
3134G8VN6	6056	Federal Home Loan Mortgage Co.		03/31/2016	1,000,000.00	978,930.00	1,000,000.00	1.600		1.600	818	03/29/2021
3134G8TV1	6057	Federal Home Loan Mortgage Co.		03/31/2016	2,000,000.00	1,994,520.00	2,000,000.00	1.220	AA	1.220	87	03/29/2019
3134G8W21	6059	Federal Home Loan Mortgage Co.		04/08/2016	7,000,000.00	6,913,480.00	7,000,000.00	1.375		1.375	363	12/30/2019
3134G9AP2	6069	Federal Home Loan Mortgage Co.		04/26/2016	4,540,000.00	4,501,773.20	4,540,000.00	1.200	AA	1.200	206	07/26/2019
3134G8WH8	6070	Federal Home Loan Mortgage Co.		04/27/2016	5,250,000.00	5,170,830.00	5,250,000.00	1.400	AA	1.400	482	04/27/2020
3134G9AH0	6072	Federal Home Loan Mortgage Co.		04/27/2016	5,000,000.00	4,930,500.00	5,000,000.00	1.300	AA	1.300	391	01/27/2020
3134G9AH0	6073	Federal Home Loan Mortgage Co.		04/27/2016	4,000,000.00	3,944,400.00	4,000,000.00	1.300	AA	1.300	391	01/27/2020
3134G9BA4	6074	Federal Home Loan Mortgage Co.		04/28/2016	4,250,000.00	4,171,545.00	4,250,000.00	1.370		1.370	574	07/28/2020
3134G9DF1	6080	Federal Home Loan Mortgage Co.		05/04/2016	5,000,000.00	4,935,400.00	5,000,000.00	1.410		1.410	399	02/04/2020
3134G9GS0	6093	Federal Home Loan Mortgage Co.		05/26/2016	5,000,000.00	4,952,800.00	5,000,000.00	1.250	AA	1.250	237	08/26/2019
3134G9UM7	6113	Federal Home Loan Mortgage Co.		06/30/2016	5,000,000.00	4,904,300.00	5,000,000.00	1.500	AA	1.730	911	06/30/2021
3134G92B2	6139	Federal Home Loan Mortgage Co.		08/18/2016	5,000,000.00	4,994,650.00	4,999,794.50	0.950	AA	1.002	29	01/30/2019
3134GATV6	6154	Federal Home Loan Mortgage Co.		11/01/2016	5,000,000.00	4,987,950.00	5,000,000.00	1.750	AA	1.323	300	10/28/2019
3134G92B2	6182	Federal Home Loan Mortgage Co.		12/07/2016	5,000,000.00	4,994,650.00	4,998,780.72	0.950	AA	1.258	29	01/30/2019
3134GA5Z3	6264	Federal Home Loan Mortgage Co.		03/08/2017	5,750,000.00	5,745,860.00	5,746,155.32	2.000	AA	1.756	605	08/28/2020
3134GA7A6	6265	Federal Home Loan Mortgage Co.		03/09/2017	5,000,000.00	4,960,050.00	5,000,000.00	1.500	AA	1.500	251	09/09/2019
3134GBAG7	6297	Federal Home Loan Mortgage Co.		04/11/2017	5,000,000.00	4,940,700.00	5,000,000.00	1.750	AA	1.750	545	06/29/2020
3134GBFV9	6354	Federal Home Loan Mortgage Co.		04/27/2017	5,000,000.00	4,979,250.00	5,000,000.00	2.250	AA	1.917	482	04/27/2020
3134GBTG7	6449	Federal Home Loan Mortgage Co.		07/03/2017	5,000,000.00	4,923,000.00	4,998,499.26	1.875	AA	1.889	818	03/29/2021
3134GBWE8	6454	Federal Home Loan Mortgage Co.		07/14/2017	5,000,000.00	4,952,500.00	4,997,636.84	1.750	AA	1.707	910	06/29/2021
3134GBUG5	6464	Federal Home Loan Mortgage Co.		07/21/2017	5,000,000.00	4,931,600.00	4,998,093.10	1.625		1.651	545	06/29/2020
3134GBB35	6477	Federal Home Loan Mortgage Co.		08/10/2017	5,000,000.00	4,931,200.00	5,000,000.00	1.700	AA	1.700	587	08/10/2020
3134GBE65	6498	Federal Home Loan Mortgage Co.		08/30/2017	5,000,000.00	4,894,750.00	5,000,000.00	2.050	AA	2.050	1,333	08/26/2022
3134GBM33	6547	Federal Home Loan Mortgage Co.		09/27/2017	5,000,000.00	4,956,850.00	4,998,891.67	1.500	AA	1.531	269	09/27/2019
3134GBL83	6550	Federal Home Loan Mortgage Co.		09/27/2017	5,000,000.00	4,940,650.00	5,000,000.00	1.600		1.600	451	03/27/2020
3134GBN32	6556	Federal Home Loan Mortgage Co.		09/28/2017	4,100,000.00	4,038,418.00	4,098,809.86	1.700	AA	1.717	636	09/28/2020
3134GBF64	6557	Federal Home Loan Mortgage Co.		09/28/2017	5,000,000.00	4,916,200.00	5,000,000.00	1.600	AA	1.600	636	09/28/2020
3134GBN40	6562	Federal Home Loan Mortgage Co.		09/29/2017	5,000,000.00	4,931,600.00	5,000,000.00	1.625	AA	1.625	545	06/29/2020
3134GBH21	6564	Federal Home Loan Mortgage Co.		09/29/2017	5,000,000.00	4,918,650.00	4,993,603.70	1.700	AA	1.776	637	09/29/2020
3134GBP89	6575	Federal Home Loan Mortgage Co.		10/26/2017	5,000,000.00	4,922,000.00	5,000,000.00	1.850		1.850	846	04/26/2021
3134G92B2	6584	Federal Home Loan Mortgage Co.		11/17/2017	5,000,000.00	4,994,650.00	4,997,153.58	0.950	AA	1.666	29	01/30/2019
3134GB3B6	6596	Federal Home Loan Mortgage Co.		12/07/2017	5,000,000.00	4,938,800.00	4,996,823.77	2.000	AA	2.031	787	02/26/2021
3134GB7G1	6624	Federal Home Loan Mortgage Co.		12/21/2017	5,000,000.00	4,958,650.00	5,000,000.00	2.250		2.200	1,450	12/21/2022

**County Pool 2018-2019  
Portfolio Management  
Portfolio Details - Investments  
December 31, 2018**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity	Maturity Date
<b>Federal Agency Coupon - Callables</b>												
3134GB5W8	6626	Federal Home Loan Mortgage Co.		12/28/2017	5,000,000.00	4,948,450.00	5,000,000.00	2.050		2.050	909	06/28/2021
3134GSAC9	6627	Federal Home Loan Mortgage Co.		12/28/2017	5,000,000.00	4,942,800.00	5,000,000.00	2.050		2.050	727	12/28/2020
3134GBX80	6648	Federal Home Loan Mortgage Co.		02/07/2018	5,000,000.00	4,917,950.00	4,936,718.70	2.300	AA	2.650	1,413	11/14/2022
3134GSCD5	6652	Federal Home Loan Mortgage Co.		02/08/2018	5,000,000.00	4,957,950.00	4,964,340.68	2.550	AA	2.738	1,490	01/30/2023
3134GSET8	6663	Federal Home Loan Mortgage Co.		02/27/2018	5,000,000.00	4,981,100.00	5,000,000.00	2.500		2.500	969	08/27/2021
3134GSCM5	6664	Federal Home Loan Mortgage Co.		02/28/2018	7,850,000.00	7,826,057.50	7,831,719.97	2.700	AA	2.760	1,519	02/28/2023
3134G9ZN0	6679	Federal Home Loan Mortgage Co.		03/28/2018	5,000,000.00	4,960,450.00	4,955,525.86	1.500	AA	2.520	546	06/30/2020
3136G2WV5	6034	Federal Nat'l Mtg. Assoc.		01/29/2016	5,000,000.00	4,996,150.00	5,000,000.00	1.220		1.220	24	01/25/2019
3135G0J38	6049	Federal Nat'l Mtg. Assoc.		02/26/2016	5,000,000.00	4,990,800.00	5,000,000.00	1.250		1.250	56	02/26/2019
3136G3MG7	6085	Federal Nat'l Mtg. Assoc.		05/18/2016	5,000,000.00	4,927,300.00	5,000,000.00	1.500		1.500	503	05/18/2020
3136G3MN2	6092	Federal Nat'l Mtg. Assoc.		05/24/2016	5,000,000.00	4,979,950.00	5,000,000.00	1.500	AA	1.250	143	05/24/2019
3136G3MH5	6098	Federal Nat'l Mtg. Assoc.		06/07/2016	5,000,000.00	4,974,000.00	5,000,000.00	1.250	AA	1.250	149	05/30/2019
3136G3TN5	6114	Federal Nat'l Mtg. Assoc.		06/30/2016	5,000,000.00	4,931,150.00	5,000,000.00	1.210		1.210	363	12/30/2019
3136G3F59	6135	Federal Nat'l Mtg. Assoc.		07/26/2016	5,000,000.00	4,977,200.00	5,000,000.00	1.060		1.060	115	04/26/2019
3136G3ZT5	6136	Federal Nat'l Mtg. Assoc.		07/26/2016	5,000,000.00	4,982,700.00	5,000,000.00	2.000		1.245	206	07/26/2019
3135G0M91	6138	Federal Nat'l Mtg. Assoc.		08/10/2016	5,000,000.00	4,958,250.00	4,999,173.08	1.125	AA	1.155	206	07/26/2019
3136G3U86	6143	Federal Nat'l Mtg. Assoc.		08/25/2016	5,000,000.00	4,899,750.00	5,000,000.00	1.300		1.300	602	08/25/2020
3136G4DR1	6152	Federal Nat'l Mtg. Assoc.		10/17/2016	5,000,000.00	4,939,400.00	4,998,013.89	1.100	AA	1.151	289	10/17/2019
3136G4GU1	6177	Federal Nat'l Mtg. Assoc.		11/30/2016	5,000,000.00	4,944,350.00	4,994,876.28	1.400		1.517	328	11/25/2019
3136G3K53	6178	Federal Nat'l Mtg. Assoc.		12/02/2016	5,000,000.00	4,960,550.00	4,993,955.73	1.260	AA	1.471	213	08/02/2019
3136G4JR5	6223	Federal Nat'l Mtg. Assoc.		12/27/2016	5,000,000.00	4,945,300.00	5,000,000.00	1.625		1.625	451	03/27/2020
3136G4KD4	6224	Federal Nat'l Mtg. Assoc.		12/29/2016	5,000,000.00	4,940,500.00	5,000,000.00	1.750	AA	1.750	545	06/29/2020
3136G4KD4	6225	Federal Nat'l Mtg. Assoc.		12/29/2016	5,000,000.00	4,940,500.00	4,997,865.08	1.750	AA	1.780	545	06/29/2020
3136G4KW2	6247	Federal Nat'l Mtg. Assoc.		02/14/2017	3,200,000.00	3,168,448.00	3,200,000.00	1.650		1.650	409	02/14/2020
3136G4KQ5	6252	Federal Nat'l Mtg. Assoc.		03/03/2017	5,000,000.00	4,951,550.00	4,996,672.73	1.650	AA	1.715	381	01/17/2020
3136G2YL5	6285	Federal Nat'l Mtg. Assoc.		04/06/2017	5,000,000.00	4,999,050.00	4,996,540.18	2.000	AA	1.814	787	02/26/2021
3136G4GF4	6586	Federal Nat'l Mtg. Assoc.		11/27/2017	3,700,000.00	3,583,746.00	3,643,863.19	1.550	AA	2.112	1,031	10/28/2021
3136G4RH8	6644	Federal Nat'l Mtg. Assoc.		01/30/2018	5,000,000.00	4,955,500.00	4,997,748.84	2.200	AA	2.223	757	01/27/2021
3136G3Y25	6649	Federal Nat'l Mtg. Assoc.		02/07/2018	5,000,000.00	4,849,200.00	4,880,563.38	1.500	AA	2.446	967	08/25/2021
<b>Subtotal and Average</b>			<b>506,332,946.92</b>		<b>500,993,000.00</b>	<b>495,685,847.33</b>	<b>500,444,877.01</b>			<b>1.764</b>	<b>604</b>	
<b>Total and Average</b>			<b>1,344,140,788.44</b>		<b>1,602,019,956.00</b>	<b>1,589,330,972.85</b>	<b>1,597,329,203.94</b>			<b>1.957</b>	<b>321</b>	

**County Pool 2018-2019  
Portfolio Management  
Portfolio Details - Cash  
December 31, 2018**

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM	Days to Maturity
Average Balance			0.00								0
Total Cash and Investments			1,344,140,788.44		1,602,019,956.00	1,589,330,972.85	1,597,329,203.94			1.957	321





**County Pool 2018-2019**  
**Maturity Report**  
**Sorted by Maturity Date**  
**Amounts due during October 1, 2018 - December 31, 2018**

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
313313H84	6582	1	AFD	FCDN	5,000,000.00	10/01/2018	11/03/2017	1.480	5,000,000.00	0.00	5,000,000.00	0.00
912828L81	6694	1	TRC	USTR	5,000,000.00	10/15/2018	04/12/2018	0.875	5,000,000.00	21,875.00	5,021,875.00	21,875.00
3130AAM47	6239	1	MC1	FHLB	5,000,000.00	10/26/2018	01/26/2017	1.200	5,000,000.00	30,000.00	5,030,000.00	30,000.00
3133EGA70	6153	1	MC1	FFCB	5,000,000.00	11/01/2018	11/01/2016	0.970	5,000,000.00	24,250.00	5,024,250.00	24,250.00
912828M64	6696	1	TRC	USTR	5,000,000.00	11/15/2018	04/12/2018	1.250	5,000,000.00	31,250.00	5,031,250.00	31,250.00
3134GAAP9	6141	1	MC1	FHLMC	5,000,000.00	11/23/2018	08/23/2016	1.000	5,000,000.00	12,500.00	5,012,500.00	12,500.00
912796UF4	6744	1	ATD	USTR	10,000,000.00	12/26/2018	11/30/2018	2.260	10,000,000.00	0.00	10,000,000.00	0.00
313385U79	6680	1	AFD	FHLB	2,000,000.00	12/27/2018	04/02/2018	1.990	2,000,000.00	0.00	2,000,000.00	0.00
912796QQ5	6726	1	ATD	USTR	5,000,000.00	12/27/2018	09/26/2018	2.165	5,000,000.00	0.00	5,000,000.00	0.00
912828U99	6559	1	TRC	USTR	5,000,000.00	12/31/2018	09/29/2017	1.250	5,000,000.00	31,250.00	5,031,250.00	31,250.00
912828U99	6727	1	TRC	USTR	5,000,000.00	12/31/2018	09/26/2018	1.250	5,000,000.00	31,250.00	5,031,250.00	31,250.00
<b>Total Maturities</b>					<b>57,000,000.00</b>				<b>57,000,000.00</b>	<b>182,375.00</b>	<b>57,182,375.00</b>	<b>182,375.00</b>



## County Pool 2018-2019 Purchases Report Sorted by Fund - Fund October 1, 2018 - December 31, 2018

CUSIP	Investment #	Fund	Sec. Type	Issuer	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued Interest at Purchase	Rate at Purchase	Maturity Date	YTM	Ending Book Value
<b>Treasurer's Pooled Investments</b>													
9128282X7	6730	1	TRC	USTR	5,000,000.00	10/05/2018	03/31 - 09/30	4,937,695.31	944.37	1.375	09/30/2019	2.663	4,952,925.35
9128282X7	6731	1	TRC	USTR	5,000,000.00	10/05/2018	03/31 - 09/30	4,937,890.63	944.37	1.375	09/30/2019	2.659	4,953,072.92
912828XS4	6732	1	TRC	USTR	5,000,000.00	10/09/2018	11/30 - 05/31	4,959,960.94	Received	1.250	05/31/2019	2.514	4,974,333.94
313384MK2	6733	1	AFD	FHDN	5,000,000.00	10/15/2018	10/01 - At Maturity	4,873,250.00		2.600	10/01/2019	2.687	4,901,416.67
912796RJ0	6734	1	ATD	USTR	5,000,000.00	11/08/2018	05/02 - At Maturity	4,941,059.03		2.425	05/02/2019	2.488	4,959,246.53
912796RP6	6735	1	ATD	USTR	5,000,000.00	11/13/2018	05/09 - At Maturity	4,939,893.75		2.445	05/09/2019	2.509	4,956,533.33
912796QH5	6736	1	ATD	USTR	5,000,000.00	11/27/2018	05/23 - At Maturity	4,939,647.92		2.455	05/23/2019	2.520	4,951,581.95
912796PX1	6737	1	ATD	USTR	5,000,000.00	11/28/2018	03/28 - At Maturity	4,960,600.00		2.364	03/28/2019	2.416	4,971,763.33
912796RJ0	6738	1	ATD	USTR	5,000,000.00	11/28/2018	05/02 - At Maturity	4,947,902.78		2.420	05/02/2019	2.479	4,959,330.56
912796RR2	6739	1	ATD	USTR	5,000,000.00	11/29/2018	05/30 - At Maturity	4,937,690.28		2.465	05/30/2019	2.531	4,948,988.20
313384BE8	6741	1	AFD	FHDN	5,000,000.00	11/30/2018	01/29 - At Maturity	4,980,583.33		2.330	01/29/2019	2.372	4,990,938.89
313384CT4	6745	1	AFD	FHDN	5,000,000.00	11/30/2018	03/07 - At Maturity	4,968,070.83		2.370	03/07/2019	2.418	4,978,604.16
912796RP6	6742	1	ATD	USTR	5,000,000.00	11/30/2018	05/09 - At Maturity	4,945,777.78		2.440	05/09/2019	2.501	4,956,622.22
912796PT0	6743	1	ATD	USTR	5,000,000.00	11/30/2018	02/28 - At Maturity	4,971,062.50		2.315	02/28/2019	2.361	4,981,351.39
912796UF4	6744	1	ATD	USTR	10,000,000.00	11/30/2018	12/26 - At Maturity	9,983,677.78		2.260	12/26/2018	2.295	0.00
313384BP3	6746	1	AFD	FHDN	5,000,000.00	12/03/2018	02/07 - At Maturity	4,978,366.67		2.360	02/07/2019	2.403	4,987,872.22
912796RJ0	6747	1	ATD	USTR	5,000,000.00	12/03/2018	05/02 - At Maturity	4,949,145.83		2.441	05/02/2019	2.500	4,958,977.64
313312BQ2	6751	1	AFD	FCDN	5,000,000.00	12/04/2018	02/08 - At Maturity	4,978,458.33		2.350	02/08/2019	2.393	4,987,597.22
313312FF2	6752	1	AFD	FCDN	5,000,000.00	12/04/2018	05/06 - At Maturity	4,947,087.50		2.490	05/06/2019	2.552	4,956,770.83
3137EAEH8	6753	1	FAC	FHLMC	5,000,000.00	12/04/2018	02/15 - 08/15	4,955,700.00	20,815.97	1.375	08/15/2019	2.664	4,960,465.34
912796RR2	6748	1	ATD	USTR	5,000,000.00	12/04/2018	05/30 - At Maturity	4,939,156.25		2.475	05/30/2019	2.540	4,948,781.25
912796RH4	6749	1	ATD	USTR	5,000,000.00	12/04/2018	04/18 - At Maturity	4,954,343.75		2.435	04/18/2019	2.492	4,963,813.19
912796RR2	6750	1	ATD	USTR	5,000,000.00	12/04/2018	05/30 - At Maturity	4,939,156.25		2.475	05/30/2019	2.540	4,948,781.25
912796QC6	6754	1	ATD	USTR	5,000,000.00	12/06/2018	04/25 - At Maturity	4,952,750.00		2.430	04/25/2019	2.487	4,961,525.00
912796QZ5	6755	1	ATD	USTR	5,000,000.00	12/06/2018	03/07 - At Maturity	4,970,172.22		2.360	03/07/2019	2.407	4,978,694.44
313312NV8	6759	1	AFD	FFCBDN	5,000,000.00	12/07/2018	11/04 - At Maturity	4,876,422.22		2.680	11/04/2019	2.769	4,885,727.78
313384DM8	6757	1	AFD	FHDN	5,000,000.00	12/07/2018	03/25 - At Maturity	4,964,150.00		2.390	03/25/2019	2.441	4,972,448.61
313396DH3	6758	1	AFD	FMCDN	5,000,000.00	12/07/2018	03/21 - At Maturity	4,965,766.67		2.370	03/21/2019	2.419	4,973,995.84
912796RS0	6756	1	ATD	USTR	5,000,000.00	12/07/2018	06/06 - At Maturity	4,937,781.25		2.475	06/06/2019	2.541	4,946,375.00
912796RF8	6760	1	ATD	USTR	5,000,000.00	12/07/2018	10/10 - At Maturity	4,891,164.24		2.553	10/10/2019	2.631	4,900,027.09
313384BT5	6761	1	AFD	FHDN	5,000,000.00	12/10/2018	02/11 - At Maturity	4,979,087.50		2.390	02/11/2019	2.433	4,986,390.28
313312CQ1	6763	1	AFD	FCDN	5,000,000.00	12/11/2018	03/04 - At Maturity	4,972,448.61		2.390	03/04/2019	2.437	4,979,419.44

Received = Accrued Interest at Purchase was received by report ending date.

**County Pool 2018-2019  
Purchases Report  
October 1, 2018 - December 31, 2018**

CUSIP	Investment #	Fund	Sec. Type	Issuer	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued Interest at Purchase	Rate at Purchase	Maturity Date	YTM	Ending Book Value
<b>Treasurer's Pooled Investments</b>													
313384DE6	6762	1	AFD	FHDN	5,000,000.00	12/11/2018	03/18 - At Maturity	4,967,666.67		2.400	03/18/2019	2.449	4,974,666.67
313312FS4	6764	1	AFD	FCDN	5,000,000.00	12/12/2018	05/17 - At Maturity	4,946,266.67		2.480	05/17/2019	2.542	4,953,155.56
313312JT8	6765	1	AFD	FFCBDN	10,000,000.00	12/12/2018	07/29 - At Maturity	9,835,883.33		2.580	07/29/2019	2.652	9,850,216.66
313384CS6	6767	1	AFD	FHDN	10,000,000.00	12/13/2018	03/06 - At Maturity	9,944,897.22		2.390	03/06/2019	2.437	9,957,511.11
912796RU5	6766	1	ATD	USTR	5,000,000.00	12/13/2018	06/13 - At Maturity	4,937,311.11		2.480	06/13/2019	2.546	4,943,855.55
313384EY1	6768	1	AFD	FHDN	5,000,000.00	12/14/2018	04/29 - At Maturity	4,953,533.33		2.460	04/29/2019	2.518	4,959,683.33
313384FA2	6769	1	AFD	FHDN	5,000,000.00	12/14/2018	05/01 - At Maturity	4,952,850.00		2.460	05/01/2019	2.518	4,959,000.00
313384CM9	6770	1	AFD	FHDN	5,000,000.00	12/17/2018	03/01 - At Maturity	4,975,487.50		2.385	03/01/2019	2.430	4,980,456.25
912796RS0	6771	1	ATD	USTR	5,000,000.00	12/18/2018	06/06 - At Maturity	4,942,093.75		2.453	06/06/2019	2.516	4,946,862.50
313384FG9	6774	1	AFD	FHDN	5,000,000.00	12/19/2018	05/07 - At Maturity	4,952,315.28		2.470	05/07/2019	2.528	4,956,775.00
3137EADK2	6773	1	FAC	FHLMC	5,000,000.00	12/19/2018	02/01 - 08/01	4,957,100.00	23,958.33	1.250	08/01/2019	2.661	4,959,418.92
912796RU5	6772	1	ATD	USTR	5,000,000.00	12/19/2018	06/13 - At Maturity	4,940,233.33		2.445	06/13/2019	2.509	4,944,647.91
313384FC8	6775	1	AFD	FHDN	5,000,000.00	12/20/2018	05/03 - At Maturity	4,954,216.67		2.460	05/03/2019	2.517	4,958,316.67
313384GP8	6776	1	AFD	FHDN	5,000,000.00	12/20/2018	06/07 - At Maturity	4,941,788.89		2.480	06/07/2019	2.544	4,945,922.22
313384FC8	6777	1	AFD	FHDN	5,000,000.00	12/20/2018	05/03 - At Maturity	4,954,123.61		2.465	05/03/2019	2.522	4,958,231.94
313384FN4	6778	1	AFD	FHDN	5,000,000.00	12/20/2018	05/13 - At Maturity	4,950,600.00		2.470	05/13/2019	2.529	4,954,716.67
				<b>Subtotal</b>	<b>255,000,000.00</b>			<b>252,482,287.51</b>	<b>46,663.04</b>				<b>242,937,808.82</b>
				<b>Total Purchases</b>	<b>255,000,000.00</b>			<b>252,482,287.51</b>	<b>46,663.04</b>				<b>242,937,808.82</b>

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## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The following information has been provided by DTC for use in securities offering documents, and none of the District, the Corporation or the Underwriter takes any responsibility for the accuracy or completeness thereof.*

1. The Depository Trust Company (“DTC”), will act as securities depository for the Certificates. The Certificates will be executed and delivered 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 Certificate will be issued for each stated Principal Payment Date of the Certificates, each in the aggregate amount of the principal evidenced by Certificates with such stated Principal Payment Date, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated into this Official Statement by reference or otherwise.

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“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, however, are 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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be

requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Prepayment notices will be sent to DTC. If less than all of the Certificates with a particular stated Principal Payment Date are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Certificates to be prepaid.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Payments of principal, premium, if any, interest and other payments evidenced by the Certificates 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 Trustee, on the 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 Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, interest and other payments evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

THE DISTRICT, THE CORPORATION AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR ANY PREMIUM EVIDENCED BY THE CERTIFICATES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY PREPAYMENT OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE DISTRICT, THE CORPORATION AND THE TRUSTEE ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANTS TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE CERTIFICATES OR ANY ERROR OR DELAY RELATING THERETO.

THE FOREGOING DESCRIPTION OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE CERTIFICATES, PAYMENT OF PRINCIPAL, INTEREST AND OTHER PAYMENTS EVIDENCED BY THE CERTIFICATES TO PARTICIPANTS OR BENEFICIAL OWNERS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN SUCH CERTIFICATES AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE PARTICIPANTS AND THE BENEFICIAL OWNERS IS BASED ON INFORMATION PROVIDED BY DTC. ACCORDINGLY, THE DISTRICT TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF