This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or 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.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 18, 2019

NEW ISSUE—FULL BOOK-ENTRY | **RATINGS: "AA-" (S&P) "Aa2" (Moody's)**

STATE OF CALIFORNIA | **COUNTY OF ORANGE**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond 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, interest on the Series 2019A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2019A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the 2019 Bonds is exempt from State of California personal income taxes. Bond Counsel further observes that interest on the Series 2019B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2019 Bonds. See "TAX MATTERS" herein.

$30,000,000*
GARDEN GROVE UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2019A (TAX-EXEMPT)

$132,000,000*
GARDEN GROVE UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2019B (FEDERALLY TAXABLE)

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

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

The $30,000,000* Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019A (Tax-Exempt) (the "Series 2019A Bonds") are being issued to (i) refund a portion of the District's outstanding General Obligation Bonds 2010 Election, Series B (Federally Taxable – Build America Bonds) (the "Series 2010B Bonds"), and (ii) pay the costs of issuing the Series 2019A Bonds. The $132,000,000* Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019B (Federally Taxable) (the "Series 2019B Bonds and, together with the Series 2019A Bonds, the "2019 Bonds") are being issued to (i) refund a portion of the District's outstanding General Obligation Bonds 2010 Election, Series C (the "Series 2010C Bonds"), and (ii) pay costs of issuance in connection with the Series 2019B Bonds. See "INTRODUCTION—Purpose of Issue" and "THE 2019 BONDS—Application and Investment of 2019 Bond Proceeds and *Ad Valorem* Taxes" herein.

The 2019 Bonds are general obligation bonds of the District payable from *ad valorem* property taxes levied on taxable property within the District and from other amounts on deposit in the Interest and Sinking Fund (as defined herein). The Board of Supervisors of Orange County (the "County") is empowered and is obligated to levy *ad valorem* taxes, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), for the payment of interest on and principal of the 2019 Bonds when due. The District has other outstanding general obligation bonds which are secured by and payable from *ad valorem* taxes levied on taxable property within the District. See "SECURITY FOR THE 2019 BONDS" and "TAX BASE FOR REPAYMENT OF BONDS—*Ad Valorem* Property Taxation" herein.

The 2019 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Payments of principal of and interest on the 2019 Bonds will be paid by Wells Fargo Bank, National Association, as the designated paying agent and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2019 Bonds. See "THE 2019 BONDS—Book-Entry Only System" herein.

The 2019 Bonds will be dated their date of delivery. Interest on the 2019 Bonds accrues from their dated date and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2020.

The 2019 Bonds are subject to redemption prior to maturity as described herein. See "THE 2019 BONDS—Redemption of 2019 Bonds" herein.

THE 2019 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT PAYABLE SOLELY FROM AMOUNTS IN THE INTEREST AND SINKING FUND CONSISTING OF *AD VALOREM* PROPERTY TAXES LEVIED AND COLLECTED BY THE COUNTY ON TAXABLE PROPERTY WITHIN THE DISTRICT AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY. NO PART OF ANY FUND OF THE COUNTY IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2019 BONDS.

MATURITY SCHEDULE
(See Following Page)

The 2019 Bonds are offered when, as and if issued, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, and for the Underwriter by its counsel, Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation. The 2019 Bonds, in book-entry form, will be available for delivery through the facilities of the Depository Trust Company in New York, New York on or about October 16, 2019.

RAYMOND JAMES

Dated: September __, 2019

* Preliminary, subject to change.

MATURITY SCHEDULES*

BASE CUSIP† NO. 365298

$30,000,000*
GARDEN GROVE UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2019A (TAX-EXEMPT)

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

$__________ _____% Term Bonds due August 1, 20__, Yield: _____, CUSIP† _____

$132,000,000*
GARDEN GROVE UNIFIED SCHOOL DISTRICT
(ORANGE COUNTY, CALIFORNIA)
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2019B (FEDERALLY TAXABLE)

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

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* *Preliminary, subject to change.*

† *CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the Underwriter, the Municipal Advisor or the District is responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Municipal Advisor or the Underwriter and are included solely for the convenience of the registered owners of the applicable 2019 Bonds. None of the District, the Municipal Advisor or the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable 2019 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the 2019 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2019 Bonds.*

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2019 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2019 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. This Official Statement is being submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

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

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

All information material to the making of an informed investment decision with respect to the 2019 Bonds is contained in this Official Statement. While the District maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

WITH RESPECT TO THIS OFFERING, THE UNDERWRITER MAY ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2019 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2019 BONDS DESCRIBED HEREIN TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN THIS OFFICIAL STATEMENT AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE 2019 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

GARDEN GROVE UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Lan Quoc Nguyen, *President*
Teri Rocco, *Vice President*
Bob Harden, *Member*
Walter Muneton, *Member*
Dina L. Nguyen, *Member*

DISTRICT ADMINISTRATION

Gabriela Mafi, Ed.D., *Superintendent*
Rick Nakano, *Assistant Superintendent, Business Services*
Roxanne Linss, *Director of Business Services*
Traci Green, *Assistant Director of Business Services*

PROFESSIONAL SERVICES

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
Irvine, California

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

Municipal Advisor
Fieldman, Rolapp & Associates, Inc.
Irvine, California

Paying Agent, Registrar and Escrow Bank
Wells Fargo Bank, National Association
Minneapolis, Minnesota

Verification Agent
Causey Demgen & Moore P.C.
Denver, Colorado

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$30,000,000[*]	**$132,000,000[*]**
GARDEN GROVE UNIFIED SCHOOL DISTRICT	**GARDEN GROVE UNIFIED SCHOOL DISTRICT**
(ORANGE COUNTY, CALIFORNIA)	**(ORANGE COUNTY, CALIFORNIA)**
GENERAL OBLIGATION REFUNDING BONDS,	**GENERAL OBLIGATION REFUNDING BONDS,**
SERIES 2019A (TAX-EXEMPT)	**SERIES 2019B (FEDERALLY TAXABLE)**

INTRODUCTION

This Official Statement (which includes the cover page, the Table of Contents and the Appendices attached hereto) is furnished by the Garden Grove Unified School District (the "District"), located in Orange County, California, to provide information concerning the $30,000,000[*] Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019A (Tax-Exempt) (the "Series 2019A Bonds") and the $132,000,000[*] Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019B (Federally Taxable) (the "Series 2019B Bonds" and together with the Series 2019A Bonds, the "2019 Bonds").

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2019 Bonds to potential investors is made only by means of the entire Official Statement.

The District

The District was established in 1965 and is comprised of approximately 28 square miles in the County of Orange (the "County"). The District is the fourteenth largest school district in California and the third largest in the County. The District currently operates 45 elementary schools, 10 intermediate schools, 7 high schools, one continuation high school, 2 special education facilities, 1 adult education center, 1 early childhood education center, 1 fee-based preschool campus and 1 preschool family campus. The total enrollment in the District during fiscal year 2018-19 was approximately 42,298 students and the total enrollment for fiscal year 2019-20 is approximately 41,405 students.

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

Purpose of Issue

Proceeds from the Series 2019A Bonds will be used to: (i) advance refund a portion of the District's outstanding General Obligation Bonds 2010 Election, Series B (Federally Taxable – Build America Bonds) (the "Series 2010B Bonds"), and (ii) pay the costs of issuing the Series 2019A Bonds. Proceeds from the Series 2019B Bonds will be used to: (i) advance refund a portion of the District's outstanding General Obligation Bonds 2010 Election, Series C (the "Series 2010C Bonds"), and (ii) pay costs of issuance in connection with the Series 2019B Bonds. See "THE 2019 BONDS—Sources and Uses of Funds" and "—Refunding Plan" herein.

Sources of Payment for the 2019 Bonds

Ad Valorem Taxes. The 2019 Bonds are general obligation bonds of the District. The Board of Supervisors of the County has the power and is obligated annually to levy *ad valorem* taxes for the payment of

[*] *Preliminary, subject to change.*

the 2019 Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See "SECURITY FOR THE 2019 BONDS" herein.

THE 2019 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT PAYABLE SOLELY FROM AMOUNTS IN THE INTEREST AND SINKING FUND CONSISTING OF AD VALOREM PROPERTY TAXES LEVIED AND COLLECTED BY THE COUNTY ON TAXABLE PROPERTY WITHIN THE DISTRICT AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY. NO PART OF ANY FUND OF THE COUNTY IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2019 BONDS.

Description of the 2019 Bonds

Maturity Dates. The 2019 Bonds will mature on August 1 in the years and in the principal amounts set forth on the page following the cover page of this Official Statement.

Payment Dates. The 2019 Bonds will be dated their date of delivery. Interest on the 2019 Bonds accrues from their dated date at the rates set forth on the page following the cover page of this Official Statement, and is payable semiannually on each February 1 and August 1, commencing February 1, 2020 (each, an "Interest Payment Date"). The principal amount of the 2019 Bonds is payable at maturity or at earlier redemption upon surrender of the applicable 2019 Bond for payment.

Redemption. The 2019 Bonds are subject to redemption prior to maturity as described herein. See "THE 2019 BONDS—Redemption of 2019 Bonds" herein.

Registration. The 2019 Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the 2019 Bonds (the "Beneficial Owners") in authorized denominations, under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the 2019 Bonds. See "THE 2019 BONDS—Book-Entry Only System" and Appendix E—"BOOK-ENTRY ONLY SYSTEM" herein.

Denominations. The 2019 Bonds will be issued and beneficial ownership interests may be purchased by Beneficial Owners in denominations of $5,000 or any integral multiple thereof.

Authority for Issuance of the 2019 Bonds

The 2019 Bonds are issued pursuant to certain provisions of the State of California Government Code, as well as other applicable law, and pursuant to a resolution adopted by the Board of Education of the District. See "THE 2019 BONDS—Authority for Issuance" herein.

Offering and Delivery of the 2019 Bonds

The 2019 Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the 2019 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about October 16, 2019.

Continuing Disclosure

The District will execute and deliver a Continuing Disclosure Certificate in connection with the 2019 Bonds in which it will covenant for the benefit of the bondholders and Beneficial Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The specific nature of the information to be made available and the enumerated events are summarized below under the caption "CONTINUING DISCLOSURE" and set forth in APPENDIX C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Forward Looking Statements

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

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

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel to the District and Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Disclosure Counsel to the District with respect to the 2019 Bonds. Fieldman, Rolapp & Associates, Inc., Irvine, California is serving as municipal advisor to the District in connection with the issuance of the 2019 Bonds. Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, is serving as counsel to the Underwriter. The fees paid to these consultants are contingent upon the sale and delivery of the 2019 Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the 2019 Bonds are available from the Garden Grove Unified School District, 10331 Stanford Avenue, Garden Grove, California 92840, telephone: (714) 663-6000. The District may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2019 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2019 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

THE 2019 BONDS

Authority for Issuance

The 2019 Bonds are issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Act") and other applicable law, and pursuant to a resolution adopted by the Board of Education of the District on September 17, 2019 (the "Bond Resolution"). The Board of Supervisors of the County is obligated to levy *ad valorem* taxes for the payment of the principal of and interest on the 2019 Bonds. See "SECURITY FOR THE 2019 BONDS" herein.

Security and Sources of Payment

The 2019 Bonds are general obligation bonds of the District payable solely from amounts in the Interest and Sinking Fund (as defined herein) consisting *ad valorem* property taxes. Such taxes will be levied annually by the County in addition to all other taxes during the period that the 2019 Bonds are outstanding in an amount sufficient to pay the principal of and interest on the 2019 Bonds when due. See "SECURITY FOR THE 2019 BONDS" and "TAX BASE FOR REPAYMENT OF 2019 BONDS." Such taxes, when collected, will be placed by the County in the Interest and Sinking Fund, which fund is maintained by the County (the "Interest and Sinking Fund"). The Interest and Sinking Fund is irrevocably pledged for the payment of principal of and interest on the 2019 Bonds when due. Although the County is obligated to levy *ad valorem* taxes for the payment of the District's General Obligation Bonds, including the 2019 Bonds, and will maintain funds and accounts pledged to the repayment of such bonds, the District's General Obligation Bonds, including the 2019 Bonds, are not a debt of the County.

As defined herein, the term "District's General Obligation Bonds" means all bonds, including refunding bonds, of the District heretofore or hereafter issued pursuant to voter approved measures of the District.

Moneys in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the 2019 Bonds as such principal and interest becomes due and payable, will be transferred to the Paying Agent. The Paying Agent will, in turn, transfer the funds to DTC, which is to distribute the principal and interest payments due on the 2019 Bonds to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the 2019 Bonds. See "THE 2019 BONDS—Book-Entry Only System."

Description of the 2019 Bonds

The 2019 Bonds will be dated their date of delivery. Interest on the 2019 Bonds accrues from their dated date, and is payable semiannually on each Interest Payment Date, commencing February 1, 2020, at the annual interest rates shown on the page following the cover page of this Official Statement. The 2019 Bonds are issuable in denominations of $5,000 or any integral multiple thereof. Interest will accrue on the 2019 Bonds on the basis of a 360-day year comprised of twelve 30 day months.

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

Paying Agent

Wells Fargo Bank, National Association will act as the designated paying agent and transfer agent (the "Paying Agent") for the 2019 Bonds.

If the Paying Agent resigns or is removed by the District, a successor Paying Agent will be appointed by the District. Any successor Paying Agent selected by the District may be any bank, trust company, national banking association or other financial institution doing business in the State of California and with at least $100,000,000 in net assets, or the County Treasurer (the "Treasurer"), including any third party that the Treasurer contracts with to perform the services of Paying Agent under the Bond Resolution.

Application and Investment of Tax Revenues

All funds held by the Treasurer in the Interest and Sinking Fund are expected to be invested at the sole discretion of the Treasurer, on behalf of the District, in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See "ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE" for a description of the permitted investments under the investment policy of the County.

Redemption of 2019 Bonds

Optional Redemption – Series 2019A Bonds. The Series 2019A Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The 2019 Bonds maturing on or after August 1, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 20__, at a redemption price equal to the principal amount of the Series 2019A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Optional Redemption – Series 2019B Bonds. The Series 2019B Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The 2019 Bonds maturing on or after August 1, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 20__, at a redemption price equal to the principal amount of the Series 2019B Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption – Series 2019A Bonds*.* The Series 2019A Bonds maturing on August 1, 20___ (the "20__ Series 2019A Term Bonds") are subject to redemption prior to maturity from a mandatory sinking fund payment on August 1, 20__ at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of such 20__ Series 2019A Term Bonds to be so redeemed and the date therefor and the final principal payment date and amount are as indicated in the following table:

Redemption Date (August 1)	***Principal Amount***
	$
†	

† Final Maturity.

The principal amount of the 20__ Series 2019A Term Bonds to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the District, in integral multiples of $5,000, by any portion of each of such term Series 2019A Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Mandatory Sinking Fund Redemption – Series 2019B Bonds*.* The Series 2019B Bonds maturing on August 1, 20___ (the "20__ Series 2019B Term Bonds") are subject to redemption prior to maturity from a mandatory sinking fund payment on August 1, 20__ at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of such 20__ Series 2019B Term Bonds to be so redeemed and the date therefor and the final principal payment date and amount are as indicated in the following table:

Redemption Date (August 1)	***Principal Amount***
	$
†	

† Final Maturity.

The principal amount of the 20__ Series 2019B Term Bonds to be redeemed in each year shown above will be reduced proportionately or as otherwise directed by the District, in integral multiples of $5,000, by any portion of each of such term Series 2019B Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of 2019 Bonds for Redemption

If less than all of a Series of 2019 Bonds, if any, are subject to such redemption and are called for redemption, such Series of 2019 Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District, and if less than all of the 2019 Bonds of any given maturity of a Series are called for redemption, the portions of such 2019 Bonds of a given maturity to be redeemed shall be determined by lot.

Notice of and Effect of Redemption of the 2019 Bonds

So long as the 2019 Bonds are registered to DTC or its nominee, notices of redemption will be sent only to DTC in the manner provided for in its procedures and will not be sent by the Paying Agent to the Beneficial Owners.

Notice of any redemption of the 2019 Bonds shall be (i) mailed by the Paying Agent, postage prepaid, not less than 20 nor more than 60 days prior to the redemption date by first class mail to the County and the respective Owners thereof at the addresses appearing on the Registration Books, and (ii) provided as may be further required in accordance with the Continuing Disclosure Certificate.

Each notice of redemption shall state (i) the date of such notice; (ii) the name of the 2019 Bonds and the date of issue of the 2019 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the Series of 2019 Bonds and the dates of maturity or maturities of 2019 Bonds to be redeemed; (vi) if less than all of the 2019 Bonds of a Series of any maturity are to be redeemed, the distinctive numbers of the 2019 Bonds of each maturity of such Series to be redeemed; (vii) in the case of 2019 Bonds of a Series redeemed in part only, the respective portions of the principal amount of the 2019 Bonds of each maturity of such Series to be redeemed; (viii) the CUSIP number, if any, of each maturity of 2019 Bonds of a Series to be redeemed; (ix) a statement that such 2019 Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such 2019 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice.

The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the 2019 Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the 2019 Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any 2019 Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

A certificate of the Paying Agent that notice of redemption has been given to Owners as provided in the Bond Resolution will be conclusive as against all parties. Neither the failure to receive the notice of redemption as provided in this Section, nor any defect in such notice shall affect the sufficiency of the proceedings for the redemption of the 2019 Bonds or the cessation of interest on the date fixed for redemption.

When notice of redemption has been given substantially as provided for in the Bond Resolution and as described above, and when the redemption price of the 2019 Bonds called for redemption is set aside for such purpose, the 2019 Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such 2019 Bonds at the place specified in the notice of redemption, such 2019 Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such 2019 Bonds so called for redemption after such redemption date shall be entitled to payment thereof only from the Interest and Sinking Fund or the trust fund established for such purpose. All 2019 Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Funds for Redemption

Prior to or on the redemption date of any 2019 Bonds there shall be available in the Interest and Sinking Fund of the District, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the redemption prices as provided in the Bond Resolution, the 2019 Bonds designated in the notice of redemption. Such monies shall be applied on or after the redemption date solely for payment of principal of, interest and premium, if any, on the 2019 Bonds to be redeemed upon presentation and surrender of such 2019 Bonds, provided that all monies in the Interest and Sinking Fund of the District shall be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date shall be paid from the Interest and Sinking Fund of the District, unless otherwise provided to be paid from such monies held in trust. If, after all of the 2019 Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Interest and Sinking Fund of the District or otherwise held in trust for the payment of redemption price of the 2019 Bonds, the monies shall be held in or returned or transferred to the Interest and Sinking Fund of the District for payment of any of the District's General Obligation Bonds outstanding payable from such fund; provided, however, that if the monies are part of the proceeds of District's General Obligation Bonds, the monies shall be transferred to the fund created for the payment of principal of and interest on such bonds. If there are no District's General Obligation Bonds are outstanding at such time, the monies shall be transferred to the general fund of the District as provided and permitted by law.

Book-Entry Only System

One fully registered bond without coupons for each maturity of each Series of the 2019 Bonds will be issued and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the 2019 Bonds. Individual purchases may be made in book-entry form only, in the principal amount of $5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the 2019 Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to DTC Participants for subsequent dispersal to the Beneficial Owners of the 2019 Bonds as described herein. See Appendix E—"BOOK-ENTRY ONLY SYSTEM" herein.

Defeasance

If at any time the District shall pay or cause to be paid or there shall otherwise be paid to the Owners of any or all of the outstanding 2019 Bonds of a Series all or any part of the principal, interest and premium, if any, on the 2019 Bonds of a Series at the times and in the manner provided in the Bond Resolution and in such Series of 2019 Bonds, or as provided in the following paragraph, or as otherwise provided by law consistent with the Bond Resolution, then such Owners shall cease to be entitled to the obligation of the District and the County to make payments on such 2019 Bonds, and such obligation and all agreements and covenants of the District and of the County to such Owners under the Bond Resolution and under such 2019 Bonds shall thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal, interest and premium, if any, represented by such 2019 Bonds, but only out of monies on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment; and provided further, however, that the provisions relating to unclaimed moneys shall apply in all events.

For purposes of accomplishing such defeasance, the District may pay and discharge any or all of the 2019 Bonds by depositing in trust with the Paying Agent or an escrow agent, selected by the District, at or before maturity, money or non-callable direct obligations of the United States of America (including zero interest bearing State and Local Government Series) or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available monies then on deposit in the Interest and Sinking Fund of the District, be fully sufficient to pay and discharge the indebtedness on such 2019 Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Amendments to Bond Resolution

The Bond Resolution may be modified or amended without the consent of the Owners in order to cure ambiguities or provide clarification, provided that such modification or amendment does not materially adversely affect the rights of owners of the District's General Obligation Bonds. For any other purpose, the Bond Resolution may be modified or amended only with the consent of the Owners of a majority of the aggregate principal amount of all 2019 Bonds then outstanding; provided that any such modification or amendment to the "Pledge of Taxes" and "Contract with Bondholders" sections of the Bond Resolution shall require the consent of the owners of a majority of the aggregate principal amount of all District General Obligation Bonds then outstanding. No such modification or amendment shall extend the maturity of, reduce the interest rate or redemption premium on or principal amount of any 2019 Bond or reduce the percentage of consent required for amendment hereof without the express consent of all the owners so affected.

Unclaimed Moneys

Pursuant to the Bond Resolution, any money held in any fund created pursuant thereto, or by the Paying Agent or an escrow agent in trust, for the payment of the principal, redemption premium, if any, or interest on the 2019 Bonds and remaining unclaimed for two years after the principal of all of the 2019 Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from the fund; or, if no such bonds of the District are at such time outstanding, the monies shall be transferred to the general fund of the District as provided and permitted by law.

Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2019 Bonds are as follows:

Sources of Funds	***Series 2019A Bonds***	***Series 2019B Bonds***	***Total***
Principal Amount			
Net Original Issue Premium			
Total Sources of Funds			
Uses of Funds			
2010B Escrow Fund			
2010C Escrow Fund			
Costs of Issuance Account[(1)]			
Underwriter's Discount			
Total Uses of Funds			

(1) Will be used to pay all costs of issuance relating to the 2019 Bonds.

Refunding Plan

A portion of the Series 2019A Bonds will be applied to advance refund the Series 2010B Bonds maturing on August 1, 2022 through August 1, 2025, inclusive, and the Series 2010B Bonds maturing on August 1, 2030 (together, the "Refunded 2010B Bonds") and redeem such Refunded 2010B Bonds on August 1, 2020. A portion of the Series 2019B Bonds will be applied to advance refund the Series 2010C Bonds maturing on August 1, 2024 through August 1, 2035, inclusive and the Series 2010C Bonds maturing on August 1, 2037 and August 1, 2040 (together, the "Refunded 2010C Bonds") and redeem such Refunded 2010C Bonds on August 1, 2023.

A portion of the proceeds from the sale of the Series 2019A Bonds will be deposited into an escrow fund (the "2010B Escrow Fund") to refund the Refunded 2010B Bonds. The 2010B Escrow Fund is to be created and maintained by Wells Fargo Bank, National Association, as escrow bank (the "Escrow Bank"), under an Escrow Agreement, by and between the District and the Escrow Bank for the refunding of the Refunded 2010B Bonds.

A portion of the proceeds from the sale of the Series 2019B Bonds will be deposited into an escrow fund (the "2010C Escrow Fund") to refund the Refunded 2010C Bonds. The 2010C Escrow Fund is to be created and maintained by the Escrow Bank, under an Escrow Agreement, by and between the District and the Escrow Bank for the refunding of the Refunded 2010C Bonds.

Moneys in the 2010B Escrow Fund and the 2010C Escrow Fund will be held in cash and/or invested in non-callable direct obligations of the United States of America that are in the form of United States Treasury notes, bonds, bills or certificates of indebtedness. Amounts on deposit in the 2010B Escrow Fund and the 2010C Escrow Fund are not available to pay debt service on the 2019 Bonds.

Verification

Upon delivery of the 2019 Bonds, Causey Demgen & Moore P.C., Denver, Colorado (the "Verification Agent"), a firm of independent public accountants, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to: (a) the adequacy of the portion of the proceeds of the 2019 Bonds to refund and redeem the Refunded 2010B Bonds and the Refunded 2010C Bonds as described above under the caption "—Refunding Plan" and (b) the computations of yield of the Series 2019A Bonds and the obligations deposited into the 2010B Escrow Fund which support Bond Counsel's opinion that interest on the Series 2019A Bonds is not includable in gross income for federal income tax purposes.

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL DISCLOSURE

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

The Board of Supervisors of the County approved the current County Investment Policy Statement (the "Investment Policy") on December 18, 2018 (see APPENDIX F – ORANGE COUNTY INVESTMENT POLICY STATEMENT" or ocgov.com/ocinvestments) (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.). The Investment Policy applies to all funds managed by the County Treasurer as delegated by the Board of Supervisors of the County including the Orange County Investment Pool, the Orange County Educational Investment Pool, the John Wayne Airport Investment Fund and various other small non-Pooled investment funds. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds. The main investing objectives, in order of priority are: Safety, Liquidity and Yield.

Pursuant to California Government Code Section ("CGC") 27130-27137, the Board of Supervisors of the County has established a Treasury Oversight Committee ("TOC") that monitors and reviews the Investment Policy annually and causes an annual audit to be conducted to determine if the Treasurer is in compliance with CGC 27130-17137 and which includes, limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools, or their respective designees and four public members. In addition, the Auditor-Controller Internal Audit Division and the Internal Audit Department perform regular reviews and audits as required by CGC 26920(a) and (b) and as required by a TOC Directive. These reports, when issued, are available online in the Treasurer's Monthly Investment Report at ocgov.com/ocinvestments (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement).

The District's funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the District's funds. As of June 30, 2019, the balance in the District's funds was $494,965,201.77 or 8.90% of the Pool. The Pool is invested 96% in securities rated in the two highest rating categories. As of June 30, 2019, the Pool had a weighted average maturity of 310 days and the year-to-date net yield is 2.03%.

The following represents the composition of the Pool as of June 30, 2019:

Type of Investment	***Market Value (In thousands)***	***% of Pool***
U.S. Government Agencies	$ 3,501,409	62.57%
U.S. Treasuries	1,411,699	25.22%
Municipal Debt	296,037	5.29%
Medium-Term Notes	222,564	3.98%
Money Market Mutual Funds	131,024	2.34%
Local Agency Investment Fund	33,425	0.60%
Total	$ 5,596,158	100.00%

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

DEBT SERVICE SCHEDULES

The following table sets forth the semiannual debt service on the Series 2019A Bonds:

Period Ending	*Series 2019A Bonds Principal Payment*	*Series 2019A Bonds Interest Payment*	*Total*
Totals			

The following table sets forth the semiannual debt service on the Series 2019B Bonds:

Period Ending	*Series 2019B Bonds Principal Payment*	*Series 2019B Bonds Interest Payment*	*Total*
Totals			

In addition to the 2019 Bonds (and not accounting for the planned refunding of the Refunded 2010B Bonds and the Refunded 2010C Bonds with proceeds of the 2019 Bonds), the District has outstanding $389,997,300 principal amount of additional series of general obligation bonds (the "Prior General Obligation Bonds"), each of which is secured by ad valorem taxes upon all property subject to taxation by the District on a parity with the 2019 Bonds. Following the issuance of the 2019 Bonds, the District will have a total of $402,752,300* general obligation bonds outstanding. The following table summarizes the aggregate annual debt service requirements for all of the District's outstanding general obligation bonds:

GARDEN GROVE UNIFIED SCHOOL DISTRICT
AGGREGATE ANNUAL DEBT SERVICE

Year Ending (August 1)	*Prior General Obligation Bonds*(1)	*2019 Bonds*	*Total*
2020	$27,603,295.02		
2021	26,173,795.02		
2022	24,281,070.02		
2023	23,147,320.02		
2024	23,823,470.02		
2025	23,515,420.02		
2026	24,204,770.02		
2027	25,355,180.02		
2028	26,194,812.52		
2029	27,044,157.52		
2030	27,940,713.76		
2031	28,862,913.76		
2032	29,808,242.52		
2033	30,786,490.02		
2034	31,795,451.26		
2035	32,843,476.26		
2036	33,922,021.26		
2037	35,032,183.76		
2038	36,191,786.26		
2039	37,394,341.26		
2040	38,622,153.76		
2041	11,331,531.26		
2042	11,787,156.26		
2043	12,255,800.00		
2044	12,746,400.00		
2045	13,256,800.00		
2046	13,789,800.00		
2047	9,658,000.00		
2048	10,046,400.00		
Total	$709,414,951.60		

(1) Does not reflect the refunding of the Refunded 2010B Bonds and the Refunded 2010C Bonds with proceeds of the 2019 Bonds.
Source: Municipal Advisor.

* *Preliminary, subject to change.*

SECURITY FOR THE 2019 BONDS

The 2019 Bonds are general obligation bonds of the District payable solely from amounts in the Interest and Sinking Fund consisting of *ad valorem* property taxes levied on taxable property within the District. The Board of Supervisors of the County, on behalf of the District, is empowered and obligated annually to levy *ad valorem* taxes, without limitation of rate or amount, for the payment of the principal and interest on the 2019 Bonds due and payable in the next succeeding bond year (less amounts on deposit in the Interest and Sinking Fund), upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). Pursuant to the Bond Resolution, the District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of the District's General Obligation Bonds and amounts on deposit in the Interest and Sinking Fund to the payment of the principal or redemption price of and interest on the District's General Obligation Bonds. See "TAX BASE FOR REPAYMENT OF 2019 BONDS" herein.

The Prior General Obligation Bonds are also payable from *ad valorem* property taxes levied on taxable property within the District to repay such bonds. The amount of the annual *ad valorem* tax levied to repay the 2019 Bonds and the Prior General Obligation Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the 2019 Bonds and the Prior General Obligation Bonds in any year. Fluctuations in the annual debt service on the 2019 Bonds and the Prior General Obligation Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. These factors include a general market decline in real property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the federal government, the State of California (the "State") and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination.

The assessed valuation of property in the District is $28,284,059,971 for fiscal year 2019-20, an increase of approximately 22.7% from fiscal year 2015-16. See "TAX BASE FOR REPAYMENT OF THE 2019 BONDS—Historical Data Concerning District Tax Base." While the assessed valuations in the District has increased over recent years, future declines in real estate values in southern California, natural disasters, the departure of major taxpayers or other factors could result in lower assessed values in the District and in both a higher annual tax rate within the District and a higher level of delinquencies in tax payments. The County has adopted the Teeter Plan (defined below). As a result, the District's receipt of property taxes levied on the secured roll is not subject to delinquencies so long as the Teeter Plan remains in place. See "TAX BASE FOR REPAYMENT OF THE 2019 BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

THE 2019 BONDS ARE GENERAL OBLIGATION BONDS OF THE DISTRICT AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COUNTY. NO PART OF ANY FUND OF THE COUNTY IS PLEDGED OR OBLIGATED TO THE PAYMENT OF THE 2019 BONDS.

TAX BASE FOR REPAYMENT OF THE 2019 BONDS

The information in this section describes *ad valorem* property taxation, assessed valuation, and other measures of the tax base of the District. The 2019 Bonds are payable from *ad valorem* taxes levied and collected by the County on taxable property in the District. The District's General Fund is not a source for the repayment of the 2019 Bonds.

Ad Valorem Property Taxation

The collection of property taxes is significant to the District and the owners of the 2019 Bonds in two respects. First, amounts allocated to the District from the general 1% *ad valorem* property tax levy, which is levied in accordance with Article XIIIA of the California Constitution and its implementing legislation, funds a portion of the District's budget which is used to operate the District's educational program. See "DISTRICT FINANCIAL MATTERS—Revenue Sources" below. Second, the Board of Supervisors of the County is obligated to levy and collect *ad valorem* taxes on all taxable parcels within the District which are pledged specifically to the repayment of the 2019 Bonds and the Prior General Obligation Bonds. As described below, the County is obligated to collect on the annual tax bills it distributes to the owners of parcels within the boundaries of the District the general *ad valorem* property tax levy and the additional *ad valorem* property tax levy pledged to repay the 2019 Bonds and the Prior General Obligation Bonds.

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

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

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

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

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at

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

District Assessed Valuation. Both the general 1% *ad valorem* property tax levy and the additional *ad valorem* levy for the 2019 Bonds and the Prior General Obligation Bonds are based upon the assessed valuation of the parcels of taxable property in the District. Property taxes allocated to the District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both District and county taxing purposes. The valuation of secured property by the County is established as of January 1, and is subsequently equalized in September of each year, when tax bills are mailed to property owners.

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

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

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

Teeter Plan. Certain counties in the State of California operate under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies levied on the secured roll, but do not receive interest or penalties on delinquent taxes collected by the county. The County has adopted the Teeter Plan, and consequently the District's receipt of property taxes levied on the secured roll is not subject to delinquencies. No assurances can be provided that the County will not discontinue the Teeter Plan, the result of which would be to subject the District's receipt of all property taxes to delinquencies in the payment thereof.

Historical Data Concerning District Tax Base

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

Property within the District has a total assessed valuation for fiscal year 2019-20 of $28,284,059,971. Table 1A below provides the five-year history of assessed valuations in the District.

Table 1A
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Assessed Valuations
Fiscal Year 2015-16 through 2019-20

Fiscal Year	*Local Secured*	*Utility*	*Unsecured*	*Total*
2015-16	$22,214,172,671	$2,970,103	$842,066,088	$23,059,208,862
2016-17	23,408,845,245	2,970,103	914,724,111	24,326,539,459
2017-18	24,720,169,135	2,970,103	935,055,458	25,658,194,696
2018-19	26,140,353,635	4,216,951	943,211,513	27,087,782,099
2019-20	27,307,974,082	4,216,951	971,868,938	28,284,059,971

Sources: California Municipal Statistics, Inc. for fiscal years 2015-16 through 2018-19. County of Orange Auditor-Controller's Office for fiscal year 2019-20.

Assessed valuation within the District by jurisdiction for fiscal year 2018-19 is shown in Table 1B below.

Table 1B
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Assessed Valuation by Jurisdiction
Fiscal Year 2018-19

Jurisdiction:	*Assessed Valuation in School District*	*% of School District*	*Assessed Valuation of Jurisdiction*	*% of Jurisdiction in School District*
City of Anaheim	$ 153,141,605	0.57%	$ 45,731,391,443	0.33%
City of Cypress	962,926,217	3.55	7,492,894,724	12.85
City of Fountain Valley	3,025,665,493	11.17	9,591,156,528	31.55
City of Garden Grove	15,755,152,539	58.16	16,905,098,847	93.20
City of Los Alamitos	2,754,578	0.01	2,165,015,762	0.13
City of Santa Ana	3,124,431,381	11.53	26,520,241,206	11.78
City of Seal Beach	214,754	0.00	5,625,919,713	0.00
City of Stanton	1,422,049,623	5.25	2,836,468,798	50.13
City of Westminster	2,492,954,747	9.20	9,391,193,921	26.55
Unincorporated Orange County	148,491,162	0.55	30,385,043,725	0.49
Total District	$ 27,087,782,099	100.00%		
Orange County	$ 27,087,782,099	100.00%	$ 591,987,855,656	4.58%

Sources: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

Table 2A summarizes the annual secured base property tax levy within the District and the amount delinquent as of June 30 for fiscal years 2013-14 through 2017-18. Table 2B summarizes the secured tax levy made within the District for the District's Prior General Obligation Bonds and the amount delinquent for fiscal years 2013-14 through 2017-18. The County has adopted the Teeter Plan. As a result, the District's receipt of property taxes levied on the secured roll is not subject to delinquencies. See "TAX BASE FOR REPAYMENT OF THE 2019 BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

Table 2A
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charges Levied[(1)]	***Delinquent Secured Taxes***	***% Delinquent June 30***
2013-14	$72,037,775.85	$1,011,740.05	1.40%
2014-15	76,727,986.86	1,133,434.81	1.48
2015-16	82,472,492.78	3,616,517.31	4.39
2016-17	77,657,609.65	538,312.02	0.69
2017-18	81,315,917.30	444,088.00	0.55

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

Table 2B
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charges Levied[(1)]	***Delinquent Secured Taxes***	***% Delinquent June 30***
2013-14	$ 8,063,095.16	$ 81,449.24	1.01%
2014-15	9,633,780.38	100,747.58	1.05
2015-16	11,888,287.39	239,112.51	2.01
2016-17	12,023,135.31	151,922.59	1.26
2017-18	19,603,113.15	76,399.82	0.39

(1) Reflects the debt service levy for the District's Prior General Obligation Bonds. Excludes supplemental property.
Source: California Municipal Statistics, Inc.

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Tax Rates

There are 613 tax rate areas in the District. Table 3 summarizes the total *ad valorem* tax rates levied by all taxing entities within a typical tax rate area (TRA 18-103) of the District for fiscal years 2014-15 through 2018-19 expressed as a percentage of the assessed value of the property upon which such taxes were levied.

Table 3
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Summary of *Ad Valorem* Tax Rates
Typical Total Tax Rates (TRA 18-103)

	2014-15	***2015-16***	***2016-17***	***2017-18***	***2018-19***
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
City of Garden Grove	0.07000	0.07000	0.07000	0.08000	0.08000
North Orange County Community College	0.01704	0.02043	0.02885	0.02927	0.02829
Garden Grove Unified School District	0.04148	0.04656	0.04487	0.07454	0.06848
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
Total	1.13202%	1.15049%	1.14722%	1.18731%	1.18027%

Source: California Municipal Statistics, Inc.

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Largest Taxpayers

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

Table 4
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Twenty Largest 2018-19 Local Secured Property Taxpayers

	Property Owner	*Primary Land Use*	*2018-19 Assessed Valuation*	*% of Total*[1]
1.	GWGG LLC	Hotel/Recreational	$ 222,977,588	0.85%
2.	Investel Harbor Resorts LLC	Hotel	150,262,285	0.57
3.	Fountain Valley Regional Hospital & Medical Center	Medical Buildings	102,640,289	0.39
4.	JKS-CMFV LLC	Industrial	70,629,661	0.27
5.	CR & R Inc.	Industrial	67,901,876	0.26
6.	Khanna Enterprises General Partnership	Commercial	66,026,045	0.25
7.	Cypress Distribution Center Inc.	Industrial	65,180,900	0.25
8.	Solare Apartments SA LLC	Apartments	62,834,958	0.24
9.	Healthcare Realty	Medical Buildings	62,436,702	0.24
10.	Landmark Marriott Suites LLC	Hotel	57,462,465	0.22
11.	Raintree Fountain Valley LLC	Apartments	53,144,474	0.20
12	Landmark Hotels II LLC	Hotel	52,422,682	0.20
13.	Park Grove Fee Owner LLC	Apartments	51,211,872	0.20
14.	Icon Owner Pool 1 LA Business Parks LLC	Industrial	48,165,729	0.18
15.	Warland Investments Ltd.	Industrial	47,803,912	0.18
16.	HGGA Promenade LP	Commercial	47,614,974	0.18
17.	Jasmine Place Associates LLC	Apartments	47,078,285	0.18
18.	Chatham Rigg LLC	Commercial	47,053,642	0.18
19.	Costco Wholesale Corp.	Commercial	45,462,236	0.17
20.	U.S. Millennium LP	Commercial	44,040,533	0.17
			$ 1,412,351,108	5.40%

(1) 2018-19 Local Secured Assessed Valuations (excluding tax-exempt property): $26,140,353,635.
Source: California Municipal Statistics, Inc.

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Table 5 describes the District's land use by type in fiscal year 2018-19, which reflects that 75.12% of the total assessed valuation is for residential property and 24.88% is for non-residential property and vacant property.

Table 5
GARDEN GROVE UNIFIED SCHOOL DISTRICT
2018-19 Assessed Valuation and Parcels by Land Use

	2018-19 Assessed Valuation (1)	*% of Total*	*No. of Parcels*	*% of Total*
Non-Residential:				
Agricultural/Rural	$ 14,924,764	0.06%	11	0.02%
Commercial/Office	4,351,514,772	16.65	2,351	4.06
Industrial	2,120,367,144	8.11	896	1.55
Government/Social/Institutional	0	0.00	719	1.24
Miscellaneous	974,768	0.00	10	0.02
Subtotal Non-Residential	$ 6,487,781,448	24.82%	3,987	6.88%
Residential:				
Single Family Residence	$ 15,977,021,300	61.12%	45,983	79.36%
Condominium/Townhouse	1,523,672,454	5.83	5,919	10.22
Mobile Home	26,510,236	0.10	140	0.24
2+ Residential Units/Apartments	2,109,216,161	8.07	1,709	2.95
Subtotal Residential	$ 19,636,420,151	75.12%	53,751	92.77%
Vacant Parcels	$ 16,152,036	0.06%	201	0.35%
Total	**$ 26,140,353,635**	**100.00%**	**57,939**	**100.00%**

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

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Assessed Valuation Per Parcel of Single Family Homes

The following table shows the number of parcels with single family homes within certain ranges of assessed valuation in the District for fiscal year 2018-19.

Table 6
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Assessed Valuation per Parcel of Single Family Homes
Fiscal Year 2018-19

	Parcels	*2018-19 Assessed Valuation*	*Average Assessed Valuation*	*Median Assessed Valuation*
Single Family Residential	45,983	$15,977,021,300	$347,455	$329,777

2018-19 Assessed Valuation	*No. of Parcels*[1]	*% of Total*	*Cumulative % of Total*	*Total Valuation*	*% of Total*	*Cumulative % of Total*
$0 - $49,999	519	1.129%	1.129%	$ 19,007,092	0.119%	0.119%
$50,000 - $99,999	5,245	11.406	12.535	375,690,829	2.351	2.470
$100,000 - $149,999	2,099	4.565	17.100	259,804,726	1.626	4.097
$150,000 - $199,999	2,862	6.224	23.324	504,038,590	3.155	7.251
$200,000 - $249,999	4,740	10.308	33.632	1,074,523,638	6.725	13.977
$250,000 - $299,999	4,976	10.821	44.453	1,365,622,506	8.547	22.524
$300,000 - $349,999	4,221	9.179	53.633	1,369,216,716	8.570	31.094
$350,000 - $399,999	4,135	8.992	62.625	1,549,244,367	9.697	40.791
$400,000 - $449,999	3,869	8.414	71.039	1,640,480,698	10.268	51.059
$450,000 - $499,999	3,330	7.242	78.281	1,579,194,160	9.884	60.943
$500,000 - $549,999	2,719	5.913	84.194	1,425,182,846	8.920	69.863
$550,000 - $599,999	2,462	5.354	89.548	1,411,211,321	8.833	78.696
$600,000 - $649,999	1,877	4.082	93.630	1,170,113,467	7.324	86.019
$650,000 - $699,999	1,156	2.514	96.144	776,859,201	4.862	90.882
$700,000 - $749,999	741	1.611	97.756	535,545,014	3.352	94.234
$750,000 - $799,999	400	0.870	98.626	309,406,384	1.937	96.170
$800,000 - $849,999	214	0.465	99.091	176,319,496	1.104	97.274
$850,000 - $899,999	145	0.315	99.406	126,404,473	0.791	98.065
$900,000 - $949,999	102	0.222	99.628	94,099,738	0.589	98.654
$950,000 - $999,999	53	0.115	99.743	51,544,844	0.323	98.977
$1,000,000 and greater	118	0.257	100.000	163,511,194	1.023	100.000
Total	45,983	100.000%		$ 15,977,021,300	100.000%	

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

THE DISTRICT

Introduction

The District was established in 1965 and is comprised of approximately 28 square miles in the County. The District is the fourteenth largest school district in California and the third largest in the County. The District currently operates 45 elementary schools, 10 intermediate schools, 7 high schools, 1 continuation high school, 2 special education facilities, 1 adult education center, 1 early childhood education center, 1 fee-based preschool campus and 1 preschool family campus. The total enrollment in the District during fiscal year 2018-19 was approximately 42,298 students and the enrollment for fiscal year 2019-20 is approximately 41,405 students. The District's pupil/teacher ratio for fiscal year 2019-20 is approximately 24:1 for grade levels K through 3 and 29:1 for grade levels 4 through 12.

Board of Education

The District is governed by a five member Board of Education. Members are elected to four year terms. The current members of the Board of Education and their respective terms of office are set forth below.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
Board of Education

Name	***Term Expires***
Lan Quoc Nguyen, President	2022
Teri Rocco, Vice President	2020
Walter Muneton, Member	2020
Dina L. Nguyen, Member	2020
Bob Harden, Member	2022

Source: The District.

Superintendent and Administrative Personnel

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

Gabriela Mafi, Ed.D., Superintendent. Dr. Gabriela Mafi is in her sixth year as Superintendent of the District. Prior to being appointed Superintendent, Dr. Mafi served the District as Assistant Superintendent of Secondary Education, Director of 7-12 Instruction and Principal. She also serves as Adjunct Faculty at University of Southern California, where she earned her doctorate and previously served as Executive Director of the Ed.D. Program. Prior to joining the District, Dr. Mafi held administrative positions as an assistant principal, district coordinator, and curriculum writer as well as a teacher at various levels.

Rick Nakano, Assistant Superintendent, Business Services. Mr. Rick Nakano was promoted to Assistant Superintendent Business Services on January 10, 2013. Prior to serving in this position, Mr. Nakano served the District as Director of Business Services for 13 years and Director of Information Systems for 4 years. Mr. Nakano has a bachelor of business administration from the University of Texas at Austin and a Chief Business Official certification from California State University, Fullerton.

Roxanne Linss, Director of Business Services. Ms. Roxanne Linss has worked for the District since April 2000. She was promoted to Director of Business Services in January 2018. Prior to serving in this position, Ms. Linss served as Assistant Director of Business Services and Fiscal Services Coordinator. She has served in the field of school finance for 18 years. Mrs. Linss has a bachelor of business administration and a Chief Business Official certification from California State University, Fullerton.

Employee Relations

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

The teachers of the District (certificated personnel) are represented by two separate bargaining units: the Garden Grove Education Association ("GGEA") and the Garden Grove Pupil Personnel Services Association ("GGPPSA"). The District and the GGEA's contract expired on June 2019. The District and the GGEA are currently in negotiations and until a new agreement is reached, the parties will continue to operate under the terms of the contract which expired on June 30, 2019.

The District and the GGPPSA's contract expired on July 31, 2019. The District and the GGPPSA are currently in negotiations and until a new agreement is reached, the parties will continue to operate under the terms of the contract which expired on July 31, 2019.

As of June 30, 2019, the District employed 2,820 certificated employees with a total estimated payroll of $248,148,502 (based on Unaudited Actuals (as defined below)). Table 7 below sets forth the number of certificated employees for each of the last five fiscal years and the current fiscal year.

Table 7
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Certificated Employees

Fiscal Year	***Total Number of Employees***
2014-15	2,771
2015-16	2,891
2016-17	3,002
2017-18	2,924
2018-19	2,820
2019-20	2,849

Source: The District.

The non-teaching (classified) personnel of the District are similarly represented by two separate bargaining units: the California School Employees Association ("CSEA") and the Garden Grove Supervisory Unit ("GGSU").

The District's contracts with CSEA and GGSU expired on June 30, 2019. The District, CSEA and GGSU are currently in negotiations and until a new agreement is reached, the parties will continue to operate under the terms of their respective contract which expired on June 30, 2019.

As of June 30, 2019, the District employed 3,498 classified employees with a total estimated payroll of $98,189,948 (based on Unaudited Actuals). Table 8 below sets forth the number of classified employees for each of the last five fiscal years and the current fiscal year.

Table 8
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Classified Employees

Fiscal Year	***Total Number of Employees***
2014-15	3,161
2015-16	3,313
2016-17	3,549
2017-18	3,494
2018-19	3,498
2019-20	3,497

Source: The District.

Retirement System

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

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

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

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

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

Table 9
MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)

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

Source: AB 1469.

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

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

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

Effective Date	K-14 School Districts[(1)]
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	17.10
July 1, 2020	18.40

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

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

On June 27, 2019, the Governor signed SB 90 ("SB 90") into law as a part of the State's 2019-20 Budget (as defined below). Pursuant to SB 90, the State Legislature appropriated \$2.246 billion to be transferred to the Teacher's Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in K-14 school districts having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21. The remainder of the payment not committed for the reduction in employer contribution rates described above, is required to be allocated to reduce the employer's share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. See "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget" below.

The District's contribution to STRS was \$34,937,447 in fiscal year 2017-18 and \$39,955,500 in fiscal year 2018-19 (based on the Unaudited Actuals). The District has budgeted \$41,438,701 as its contribution to STRS in fiscal year 2019-20. For additional information regarding the District's participation in STRS, see Note 11 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.

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

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

PERS. Classified employees working four or more hours per day are members of PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2017 included 1,579 public agencies and 1,366 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 19.721% of eligible salary expenditures for fiscal year 2019-20. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2019-20, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% of their respective salaries for fiscal year 2019-20. See "*—California Public Employees' Pension Reform Act of 2013*" herein.

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

The District's contribution to PERS was $11,532,808 in fiscal year 2017-18 and $13,668,477 in fiscal year 2018-19 (based on the Unaudited Actuals). The District has budgeted $16,638,454 as its contribution in fiscal year 2019-20. For additional information regarding the District's participation in PERS, see Note 11 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.

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

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

Table 11
Funded Status
STRS (Defined Benefit Program) and PERS (School Pool)
(Dollar Amounts in Millions)[1]
Fiscal Years 2013-14 through 2017-18

STRS

Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)[2]	Unfunded Liability (MVA)[3]	Value of Trust Assets (AVA)[4]	Unfunded Liability (AVA)[4][5]
2013-14	$231,213	$179,749	$61,807	$158,495	$72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
2017-18	297,603	211,367	101,992	190,451	107,152

PERS

Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)[2]	Unfunded Liability (MVA)[3]	Value of Trust Assets (AVA)[4]	Unfunded Liability (AVA)[5]
2013-14	65,600	56,838	8,761	--[6]	--[6]
2014-15	73,325	56,814	16,511	--[6]	--[6]
2015-16	77,544	55,785	21,759	--[6]	--[6]
2016-17	84,416	60,865	23,551	--[6]	--[6]
2017-18	92,071	64,846	27,255	--[6]	--[6]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GASB Statement Nos. 67, 68 and 71. On June 25, 2012, Governmental Accounting Standards Board ("GASB") approved Statements Nos. 67 and 68 ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time.

The reporting requirements under GASB No. 68 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014. The District's net pension liability was $549,551,047 at June 30, 2018, an increase of $63,264,140 from the prior fiscal year. See Notes 8 and 11 of Appendix B.

Post-employment Benefits

The District provides post-employment benefits through two programs. The first program is a Post-Employment Benefit Plan (the "District OPEB Plan") consisting of medical, vision and dental insurance benefits to all employees who retire from the District: (i) on or after attaining age 55 with at least 10 years of consecutive District service, or (ii) on or after age 50 with at least 15 years of consecutive District service and who qualify for a disability retirement. Membership in the District OPEB Plan consist of retirees and beneficiaries currently receiving benefits, terminated plan members entitled to but not yet receiving benefits and active plan members. Retirees under age 65 have the same rate structure as active employees. The medical plans consist of three options: a self-funded PPO/Rx plan, a self-funded EPO/Rx plan and a fully insured HMO plan. Eligible retirees contribute $450 per year for single coverage or $900 per year for retiree and spouse. District-paid benefits end at age 65 or upon the death of the retiree, if earlier. Spouses and eligible dependent children of District retirees may also be covered under the District health plans, at the retiree's expense.

The District also participates in the Medicare Premium Payment program (the "MPP Program"), a cost-sharing multiple-employer post-employment benefit plan administered by STRS. The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of STRS who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The MPP Program is closed to new entrants. In accordance with State law, the District funds its share of the MPP Program from a portion of the employer contribution to STRS. District payments to the MPP Program are funded on a pay-as-you-go basis. As a result of the implementation of GASB Statement 75, as described below, commencing with fiscal year 2017-18, the District presents the liability for the MPP Program in its audited financial statements and reported a liability of $2,483,445 for its proportionate share of the net liability for the MPP Program, measured as of June 30, 2017. See Note 10 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto.

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

As calculated in accordance with the parameters former GASB Statement 45, the District's annual required contribution (the "ARC") for the District OPEB Plan was $18,492,094 for fiscal year 2015-16 and $19,776,790 for fiscal year 2016-17. The District contributed $4,891,083, or 26.4%, of its ARC in fiscal year 2015-16 and $4,044,120, or 20.4% of its ARC in fiscal year 2016-17, net of interest and adjustments. The ARC represented a level of funding that, if paid on an ongoing basis, was projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years.

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

More specifically, Statement 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Statement 75 requires the recognition of the total OPEB liability in the Statement of Net Position.

The District's most recent actuarial valuation report for the District OPEB Plan, dated August 26, 2019, reflects the application of GASB Statement 75. Based on such actuarial valuation report, the actuarial liability for the District OPEB Plan was $172,609,321 as of the June 30, 2018 measurement date. This amount represented the present value of all benefits projected to be paid by the District for current and future retirees. As of the June 30, 2018 measurement date set forth in the actuarial valuation report dated August 26, 2019, the District did not have a funded plan and had an unfunded actuarial accrued liability of $172,609,321 based on certain assumptions, which amount constitutes the portion of the actuarial liability arising from the past service of the District's current and future retirees.

The District recognizes the post-employment health care benefits on a pay-as-you-go basis. The most recent actuarial valuation report for the District OPEB Plan did not provide an actuarially determined contribution for the District OPEB Plan (i.e. a contribution amount that is projected to fully fund the District OPEB Plan over a period of amortization). The District contributed $5,560,597 to the District OPEB Plan in fiscal year 2018-19. The changes in net District OPEB Plan liability as of June 30, 2019, are shown in the following table:

Total District OPEB Plan Liability	*June 30, 2019*
Service Cost	$ 10,836,745
Interest on Total OPEB Liability	6,650,439
Difference Between Expected and Actual Experience	(8,928,434)
Change of Assumptions	(10,900,613)
Benefits Payments	(5,219,566)
Net Change in OPEB Liability	**(7,561,429)**
Total OPEB Liability, Beginning	**180,170,750**
Total OPEB Liability, Ending	**$172,609,321**

Source: District Actuarial Valuation of Other Post-Employment Benefit Programs as of June 30, 2018 and GASB 75 Report for the Fiscal Year Ending June 30, 2019.

At June 30, 2018, the District reported a liability of $2,483,445 for its proportionate share of the net liability for the MPP Program. The net liability for the MPP Program was measured as of June 30, 2017, and the total MPP Program liability used to calculate the net liability was determined by an actuarial valuation as June 30, 2016 and rolling forward the total net liability to June 30, 2017. The District's proportion of the net MPP Program liability was based on a projection of the District's long-term share of contributions to the MPP Program relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 was 0.590 percent. For the year ended June 30, 2018, the District recognized MPP Program expense of $(149,210).

See Note 10 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto for more information with respect to the District OPEB Plan and MPP Program.

Insurance

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District obtains property, liability and workers' compensation insurance coverage from the Southern California Schools Regional Liability Excess Fund (ReLiEF), which arranges for and provides such insurance for its member districts. The District pays premiums commensurate with the level of coverage requested through ReLiEF. ReLiEF provides excess insurance to the District for claims up to $50,000,000 for general liability and up to $250,000,000 for property liability. Settled claims have not exceeded commercial coverage in any of the last three years. There has not been any significant reduction in coverage in the last year.

ReLiEF is established pursuant to the provisions of the California Government Code and has local school districts and joint powers authorities as members. On the board of directors, each participating member has one seat and votes allocated based upon the member's average daily attendance. The ReLiEF board of directors controls its operation, including selection of management, and approval of operating budgets, independent of any influence of the members beyond their representation on the board. The District currently holds ReLiEF positions on the board and executive, finance, claims and underwriting committees. The office of the treasurer and finance committee chair are held by District staff. The relationship between the District and ReLiEF is such that ReLiEF is not a component unit of the District for financial reporting purposes. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in ReLiEF.

DISTRICT FINANCIAL MATTERS

Accounting Practices

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

The District generally adopts the Government Accounting Standards Board Statements for its financial reporting. Changes to the GASB Statements can result in changes in accounting principles which impact the District's financial reporting and results.

District Budget

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pursuant to State law, the District adopted its fiscal year 2019-20 budget on June 18, 2019, which set forth revenues and expenditures such that appropriations during fiscal year 2019-20 were not projected to exceed the sum of revenues plus the July 1, 2019 beginning fund balance. See "DISTRICT FINANCIAL MATTERS—Current Financial Condition" below.

State Funding of Education

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

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

The primary component of AB 97 is the implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations will be provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment will be calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

The initial Base Grants per unit of ADA for each grade span are as follows: (i) $6,952 for grades K-3; (ii) $7,056 for grades 4-6; (iii) $7,266 for grades 7-8; and (iv) $8,419 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs are subject to appropriation for such adjustment in the annual State budget. The LCFF was fully implemented in fiscal year 2018-19. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

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

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

Table 12 below shows a breakdown of the District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2014-15 through 2018-19.

TABLE 12
GARDEN GROVE UNIFIED SCHOOL DISTRICT
ADA, Enrollment and EL/LI Enrollment Percentage
Fiscal Years 2014-15 through 2018-19

	Average Daily Attendance[(1)]					*Enrollment*	
Fiscal Year	*K-3*	*4-6*	*7-8*	*9-12*	*Total ADA*	*Total Enrollment*[(2)]	*% of EL/LI Enrollment*[(2)]
2014-15	13,041.67	10,535.13	6,990.79	14,657.03	45,224.62	46,440	80.28%
2015-16	12,566.77	10,341.18	6,975.36	14,360.33	44,243.64	45,536	78.66
2016-17	12,105.20	10,075.85	6,887.92	14,182.12	43,251.09	44,469	76.75
2017-18	11,680.96	9,665.82	6,685.12	14,025.70	42,057.60	43,370	75.61
2018-19	11,417.02	9,240.50	6,772.38	13,429.85	40,859.75	42,298	75.34

(1) Reflects P-2 ADA. ADA totals include District students educated in non-public and County programs.
(2) As of October report submitted to the California Basic Educational Data System (CBEDS). For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students will be expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment will be based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students will be based on a rolling average of such district's EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
Source: The District.

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

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

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

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

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

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP. The District has updated its LCAP for fiscal year 2019-20.

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

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

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

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

Historical General Fund Financial Information

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

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Table 13
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

	2013-14	*2014-15*	*2015-16*	*2016-17*	*2017-18*
REVENUES:					
LCFF Sources	$ 312,724,257	$ 356,881,575	$ 407,427,355	$ 423,426,496	$ 425,036,957
Federal Sources	26,326,583	27,782,718	29,807,563	31,081,426	30,182,062
Other State Sources	54,332,598	61,372,579	85,438,448	77,219,914	76,846,767
Other Local Sources	9,057,364	10,382,974	11,829,052	6,955,587	9,350,540
Total Revenues	$ 402,440,802	$ 456,419,846	$ 534,502,418	$ 538,683,423	$ 541,416,326
EXPENDITURES:					
Instruction	$ 261,870,375	$ 287,336,187	$ 318,167,200	$ 303,954,854	$ 326,025,141
Instruction-Related Services	40,639,257	44,264,672	47,162,058	48,963,779	53,209,873
Pupil Services	33,422,689	36,168,955	40,148,305	39,879,303	44,742,662
General Administration	13,765,347	16,167,279	15,673,285	19,017,952	22,735,759
Plant Services	42,808,803	44,222,703	42,539,913	43,628,975	50,150,891
Facilities Acquisition and Maintenance	1,399,694	4,454,483	3,385,336	10,243,243	6,411,022
Ancillary Services	8,571,217	9,767,156	10,546,270	10,981,700	10,281,303
Community Services	284,001	295,140	287,089	284,654	289,305
Enterprise Activities	18,953	26,752	8,195	8,132	18,866
Transfers to Other Agencies	5,428,180	5,466,681	6,939,319	7,598,152	7,346,666
Debt Service	105,321	105,321	101,633	88,521	45,463
Total Expenditures	408,313,837	448,275,329	484,958,603	484,649,265	521,256,951
Excess (Deficiency) of Revenues Over Expenditures	$ (5,873,035)	$ 8,144,517	$ 49,543,815	$ 54,034,158	$ 20,159,375
Other Financing Sources (Uses)					
Transfers In	$ 1,532,441	$ 1,596,641	$ 625,058	$ 1,578,265	$ 873,738
Other Sources	-	-	-	-	-
Transfers Out	(225,431)	(371,790)	(48,333,210)	(50,964,678)	(27,352,183)
Net Financing Sources (Uses)	1,307,010	1,224,851	(47,708,152)	(49,386,413)	(26,478,445)
NET CHANGE IN FUND BALANCE	(4,566,025)	9,369,368	1,835,663	4,647,745	(6,319,070)
Fund Balance – July 1	91,263,278	86,697,253	96,066,621	97,902,284	102,550,029
Fund Balance – June 30	$ 86,697,253	$ 96,066,621	$ 97,902,284	$ 102,550,029	$ 96,230,959

Source: Garden Grove Unified School District Audited Financial Statements for fiscal years 2013-14 through 2017-18.

Table 14 below compares the District's General Fund final approved budget (GAAP Basis) to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2016-17 and its General Fund final approved budget to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2017-18.

Table 14
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Comparison of General Fund Budgeted (GAAP Basis) to General Fund Revenues and Expenditures for Fiscal Years 2016-17 and 2017-18

	2016-17		*2017-18*	
	Budget	*Audit*	*Budget*	*Audit*
REVENUES				
LCFF Sources	$ 423,426,503	$ 423,426,496	$ 425,036,957	$ 425,036,957
Federal Sources	36,657,748	31,081,426	36,717,707	30,182,062
Other State Sources	79,984,119	77,219,914	78,147,032	76,846,767
Other Local Sources	8,374,403	6,955,587	10,619,908	9,350,540
Total Revenues	$ 548,442,773	$ 538,683,423	$ 550,521,604	$ 541,416,326
EXPENDITURES				
Certificated Salaries	$ 254,199,332	$ 243,566,755	$ 253,432,612	$ 242,747,165
Classified Salaries	88,303,516	82,432,103	95,540,207	85,135,849
Employee Benefits	88,142,569	83,679,530	133,538,611	125,759,603
Books and Supplies	54,163,396	17,847,874	45,461,664	15,443,115
Services and Other Operating Expenditures	52,808,917	38,303,514	54,878,170	37,617,571
Capital Outlay	18,502,197	12,373,691	18,132,842	8,199,716
Other Outgo/Excluding Transfers of Indirect Costs	9,707,464	7,686,673	8,167,120	7,392,129
Other Outgo/Transfers of Indirect Costs	(1,368,493)	(1,240,875)	(1,284,282)	(1,038,197)
Total Expenditures	$ 564,458,898	$ 484,649,265	$ 604,866,944	$ 521,256,951
Excess (Deficiency) of Revenues Over Expenditure	$ (16,016,125)	$ 54,034,158	$ (54,345,340)	$ 20,159,375
Other Financing Sources (Uses)				
Transfers In	$ 1,578,266	$ 1,578,265	$ 873,738	$ 873,738
Transfers Out	(50,970,182)	(50,964,678)	(27,364,453)	(27,352,183)
Net Financing Sources (Uses)	(49,391,916)	(49,386,413)	(26,490,715)	(26,478,445)
NET CHANGE IN FUND BALANCE	$ (65,408,041)	$ 4,647,745	$ (80,836,055)	$ (6,319,070)
Fund Balance – July 1	97,902,284	97,902,284	102,550,029	102,550,029
Fund Balance – June 30	$ 32,494,243	$ 102,550,029	$ 21,713,974	$ 96,230,959

Source: Garden Grove Unified School District adopted budget for fiscal years 2016-17 and 2017-18 and Audited Financial Statements for fiscal years 2016-17 and 2017-18.

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Table 15 below sets forth the District's General Fund balance sheet for the 2013-14 through 2017-18 fiscal years.

Table 15
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Summary of Combined General Fund Balance Sheet

	Audited 2013-14	***Audited 2014-15***	***Audited 2015-16***	***Audited 2016-17***	***Audited 2017-18***
ASSETS					
Cash and Investments	$ 75,785,444	$118,541,313	$178,511,951	$ 160,339,144	$ 129,612,970
Accounts Receivable	51,105,113	11,439,515	15,585,802	12,664,952	9,390,659
Due from Other Funds	3,524,028	3,469,353	4,285,346	2,641,148	1,655,505
Stores Inventory	525,133	511,421	741,558	621,287	909,775
Total Assets	$130,939,718	$133,961,602	$199,124,657	$ 176,266,531	$ 141,568,909
LIABILITIES					
Accrued Liabilities	$ 28,254,320	$ 29,740,952	$ 52,373,428	$ 35,925,449	$ 31,822,812
Due to Other Funds	12,984,684	4,941,411	47,809,872	33,975,412	12,074,711
Unearned Revenue	3,003,461	3,212,618	1,039,073	3,815,641	1,440,427
Total Liabilities	44,242,465	37,894,981	$101,222,373	$ 73,716,502	$ 45,337,950
FUND BALANCES					
Nonspendable	$ 725,133	$ 711,421	$ 941,558	$ 821,287	$ 1,109,775
Restricted	17,023,744	11,182,205	12,427,991	10,995,315	11,607,755
Committed	12,256,178	-	29,097,516	32,136,837	32,916,549
Assigned	1,945,000	-	13,193,573	28,629,070	30,247,654
Unassigned	54,747,198	84,172,995	42,241,646	29,967,520	20,349,226
Total Fund Balances	86,697,253	96,066,621	97,902,284	102,550,029	96,230,959
Total Liabilities and Fund Balances	$130,939,718	$133,961,602	$199,124,657	$ 176,266,531	$ 141,568,909

Source: Garden Grove Unified School District Audited Financial Statements for fiscal years 2013-14 through 2017-18.

Current Financial Condition

The District's financial condition is closely linked to the finances of the State. Until fiscal year 2012-13, the State had experienced an ongoing structural budget deficit for several years. Although the State budget is balanced in the current fiscal year, future budget decisions by the State could have an adverse impact on the District's financial condition. See "STATE OF CALIFORNIA FISCAL ISSUES."

Table 16 below contains the difference between the District's adopted General Fund budget for fiscal year 2018-19 and the District's General Fund unaudited actual results for fiscal year 2018-19 (the "Unaudited Actuals") as reported in the adopted General Fund budget for fiscal year 2019-20 (the "Adopted Budget"). Table 16 below also shows the District's General Fund Adopted Budget.

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Table 16
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Comparison of 2018-19 Adopted General Fund Budget
to Unaudited Actuals for Fiscal Year 2018-19 and 2019-20 Adopted General Fund Budget

	Fiscal Year 2018-19 Adopted Budget	*Fiscal Year 2018-19 Unaudited Actuals*	*Difference Between 2018-19 Budget and 2018-19 Unaudited Actuals*	*Fiscal Year 2019-20 Adopted Budget*
REVENUES				
LCFF Sources	$ 439,208,626	$ 443,914,953	1.1%	$ 450,967,997
Federal Revenues	36,553,090	31,695,910	(13.3)	32,188,284
Other State Revenues	78,058,517	78,211,849	(0.2)	65,543,866
Other Local Revenue	5,913,466	8,238,178	39.3	5,387,671
Total Revenues	$ 559,733,699	$ 562,060,890		$ 554,087,818
EXPENDITURES				
Certificated Salaries	$ 239,653,179	$ 244,169,466	1.9%	$ 239,415,284
Classified Salaries	88,507,313	85,706,501	(3.6)	89,167,335
Employee Benefits	167,302,682	145,641,541	(13.0)	165,931,144
Books and Supplies	71,626,092	21,164,800	(70.5)	28,658,737
Services & Other Operating Expenditures	41,204,082	40,254,793	(2.3)	33,977,114
Capital Outlay	5,348,466	13,450,611	151.5	989,386
Other Outgo (Excluding Transfers of Indirect Costs)	7,981,057	9,294,910	16.1	7,981,057
Other Outgo – Transfers of Indirect Costs	(1,349,684)	(1,276,720)	(5.4)	(1,683,900)
Total Expenditures	$ 620,273,187	$ 558,405,902		$ 564,436,157
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES	$ (60,539,488)	$ 3,654,989		$ (10,348,339)
OTHER FINANCING SOURCES/USES				
Interfund Transfers				
Transfers In	$ 0	$ 3,080,946		$ 0
Transfers Out	(6,393,649)	(16,342,831)		(6,408,578)
Total Other Financing Sources/Uses	$ (6,393,649)	$ (13,261,885)		$ (6,408,578)
NET INCREASE (DECREASE) IN FUND BALANCE	$ (66,933,137)	$ (9,606,896)		$ (16,756,917)
FUND BALANCE, RESERVES				
Beginning Fund Balance as of July 1	$ 94,914,467	$ 96,230,959		$ 79,668,978
Ending Balance as of June 30	$ 27,981,330	$ 86,624,063		$ 62,912,061

Source: Garden Grove Unified School District Annual Budget Report for fiscal year 2018-19 and Annual Budget Report for fiscal year 2019-20.

Based on the Unaudited Actuals, after accounting for interfund transfers, General Fund expenditures exceeded General Fund revenues by approximately $9.6 million in fiscal year 2018-19. In the Adopted Budget, the District projects that General Fund expenditures will exceed General Fund revenues by approximately $16.8 million, $19.7 million and $21.2 million in fiscal years 2019-20, 2020-21 and 2021-22, respectively (in each, case after accounting for projected interfund transfers). In the aggregate, the District projects that General Fund expenditures will exceed General Fund revenues by approximately $57.7 million from fiscal years 2019-20 through 2021-22, leaving a projected General Fund balance of $21,974,793 as of June 30, 2022. This decrease in the General Fund ending balance over the next three fiscal years is caused primarily by an increase in employee salaries, increased rates for STRS and PERS, and increased health and welfare costs. The Adopted Budget projects a total decrease in ADA of approximately 4.6% from fiscal year 2019-20 through fiscal year 2021-22.

The District has a number of cost cutting measures available to reduce expenditures if needed, including implementing staffing adjustments, reducing the District's contributions towards employee health and welfare costs, decreasing deferred maintenance, asphalt, contingencies, and books and supplies costs paid for from District sources, and limiting the use of outside contracting and utility services.

State law requires the District to maintain a reserve for economic uncertainty equal to at least 2% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the Adopted Budget, the District projects available reserves of 8.02% in fiscal year 2019-20, 7.40% in fiscal year 2020-21 and 3.66% in fiscal year 2021-22. Under SB 858 (as defined below), the District's future reserves may be capped at 6% of annual expenditures in certain fiscal years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—General Overview—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several fiscal years, including fiscal year 2016-17, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the District applies a modified accrual method of accounting and, accordingly, Tables 13 through 16 do not reflect any deferral of revenues to future fiscal years. The District does not anticipate needing to borrow funds on a short-term basis in order to have adequate cash on hand to meet expenditures in the current fiscal year, though the District may borrow from internal funds or from the County Treasurer on a short-term basis, if needed. See "DISTRICT DEBT STRUCTURE—Short-Term Debt" herein.

Revenue Sources

The District categorizes its General Fund revenues into four sources: (1) state apportionment sources through the LCFF; (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

State Apportionment Funding

For fiscal years 2017-18 and 2018-19 (based on the Unaudited Actuals), the District received $425,036,957 and $443,914,953, respectively, from LCFF sources, representing 78.5% and 79.0%, respectively, of its General Fund revenues. In its Adopted Budget, the District projects that it will receive $450,967,997 from LCFF sources in fiscal year 2019-20, representing 81.4% of its General Fund revenues.

Federal Revenues

The federal government provides funding for several District programs, including special education programs, programs under the Elementary and Secondary Education Act, and certain specialized programs. The federal revenues, all of which are restricted, comprised approximately 5.6% of General Fund revenues in each of fiscal years 2017-18 and 2018-19 (based on the Unaudited Actuals). In its Adopted Budget, federal revenues are projected to be approximately 5.8% of General Fund revenues in fiscal year 2019-20.

Other State Sources

In addition to State apportionment funding discussed above, the District receives other State revenues ("Other State Sources"). In fiscal years 2017-18 and 2018-19 (based on the Unaudited Actuals), Other State Sources equaled approximately 14.2% and 13.9%, respectively, of total General Fund revenues. In fiscal year 2019-20, Other State Sources are projected to equal approximately 11.8% of total General Fund revenues.

Other Local Sources

In addition to property taxes, the District receives additional local sources ("Other Local Sources") from items such as the leasing of property owned by the District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 1.7% and 1.5% of the total General Fund revenues in fiscal years 2017-18 and 2018-19 (based on the Unaudited Actuals), respectively. Other Local Sources are budgeted to equal approximately 1.0% of General Fund revenues in fiscal year 2019-20.

Capital Projects Funds

The District maintains a Capital Facilities Fund, separate and apart from the General Fund, to account for developer fees collected by the District. The District's developer fees may be utilized for any capital purpose related to growth. Separate and apart from the General Fund, the District also maintains a County School Facilities Fund.

Collection of developer fees followed a formal declaration by the Board of Education which addressed the overcrowding of District schools as a result of new development. These fees are collected pursuant to certain provisions of the Education Code of the State. The square-foot amounts are periodically adjusted for inflation and the current developer fee is $3.79 per square foot of habitable space on domestic housing developments. The current developer fee on commercial/industrial developments is $0.61 per square foot. As of June 30, 2019 (based on the Unaudited Actuals), a balance of $35,848,844 existed in the District's Capital Facilities Fund ($35,801,510 of which the District has budgeted to spend in fiscal year 2019-20), a balance of $12,153,713 existed in the District's County School Facilities Fund, a balance of $57,255,021 existed in the District's Building Fund (which the District has budgeted to spend in fiscal year 2019-20), and a balance of $84,387,188 existed in the Special Reserve Fund for Capital Outlay Projects ($71,794,914 of which the District has budgeted to spend in fiscal year 2019-20). With the exception of amounts in the Special Reserve Fund for Capital Outlay Projects, which may be spent on one-time non-capital costs other than salaries and benefits, the amounts in these funds are restricted to pay for capital improvements.

DISTRICT DEBT STRUCTURE

Long-Term Debt

As of June 30, 2018, the District had $1,076,866,254 of long-term obligations outstanding, of which $341,168,137 was related to general obligation bonds. In April 2019, the District issued its General Obligation Bonds, Election of 2016, Series 2019 in the principal amount of $75,000,000. After the issuance of the 2019 Bonds and the refunding of the Refunded 2010B Bonds and the Refunded 2010C Bonds, the District will have $402,752,300* in long-term debt outstanding.

* *Preliminary, subject to change.*

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

Table 17
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Long-Term Debt

Governmental Activities	*Balance July 1, 2017*	*Additions*	*Deductions*	*Balance June 30, 2018*	*Balance Due In One Year*
General obligation bonds	$ 331,877,751	$ 526,157	$ 1,100,000	$ 331,303,908	$ 7,350,000
Unamortized premium	10,742,294	-	660,987	10,081,307	660,987
Unamortized Discount	(224,563)	-	(7,485)	(217,078)	(7,485)
Total general obligation bonds	$ 342,395,482	$ 526,157	$ 1,753,502	$ 341,168,137	$ 8,003,502
Capital leases	$ 43,639	$ -	$ 43,639	$ -	$ -
Compensated absences	3,472,441	20,434	-	3,492,875	-
Net OPEB obligation	180,350,799	2,303,396	-	182,654,195	-
Net pension liability	486,286,907	63,264,140	-	549,551,047	-
Total	$ 1,012,549,268	$ 66,114,127	$ 1,797,141	$ 1,076,866,254	$ 8,003,502

Source: The District.

Additional information regarding the long-term debt and its scheduled repayment is set forth in Note 8 to the District's 2017-18 Audited Financial Statements attached as Appendix B hereto.

Short-Term Debt

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

Direct and Overlapping Debt

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of the District is shown in Table 18 below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement.

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

Table 18
GARDEN GROVE UNIFIED SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
As of September 1, 2019

2018-19 Assessed Valuation: $27,087,782,099

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/19
Metropolitan Water District	0.927%	$ 445,424
Coast Community College District	10.179	73,657,229
North Orange County Joint Community College District	3.755	10,693,076
Rancho Santiago Community College District and School Facilities Improvement District No. 1	10.064-19.047	42,957,585
Garden Grove Unified School District	**100.000**	**389,997,300**[1]
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$517,750,614
OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	4.576%	$17,787,827
Orange County Pension Obligation Bonds	4.576	13,938,668
Orange County Board of Education Certificates of Participation	4.576	617,302
Coast Community College District Certificates of Participation	10.179	300,281
City of Anaheim General Fund Obligations	0.335	1,760,404
City of Fountain Valley Certificates of Participation and Pension Obligation Bonds	31.546	9,200,693
City of Garden Grove General Fund Obligations	93.198	21,179,246
City of Santa Ana General Fund Obligations	11.781	4,454,691
City of Westminster Certificates of Participation	26.546	266,787
Other City General Fund Obligations	Various	4,493
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$69,510,392
Less: City of Anaheim supported obligations		1,760,404
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$67,749,988
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$135,675,909
GROSS COMBINED TOTAL DEBT		$722,936,915 [2]
NET COMBINED TOTAL DEBT		$721,176,511

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($389,997,300) 1.44%
Total Direct and Overlapping Tax and Assessment Debt............... 1.91%
Gross Combined Total Debt... 2.67%
Net Combined Total Debt 2.66%

Ratio to Redevelopment Incremental Valuation ($7,777,307,473):
Total Overlapping Tax Increment Debt 1.74%

(1) Excludes the 2019 Bonds described herein. Excludes accreted interest on capital appreciation bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the 2019 Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "SECURITY FOR THE 2019 BONDS" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 1A, 2, 22, 30 39, 46, 98 and 111 and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the 2019 Bonds. The tax levied by the County for payment of the 2019 Bonds was approved by the District's voters in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIIIA to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978, and (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition. In 2000, Article XIIIA was amended to allow for an increase in *ad valorem* taxes for bonded indebtedness incurred by a school district or community college district if approved by 55% or more of the votes cast. See "—Proposition 39" below.

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

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

Unitary Property

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

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

Article XIIIB

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

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

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

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

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

Articles XIIIC and XIIID

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

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. A portion of the District's revenues are received annually from property taxes. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer to levy a property tax sufficient to pay debt service on the 2019 Bonds coming due in each year. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* taxes pledged to repay general obligation bonds. See "DISTRICT FINANCIAL MATTERS—Revenue Sources." In the case of *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "Bighorn Decision"), the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIIIC. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. No developer fees imposed by the District are pledged or expected to be used to make payments with respect to the 2019 Bonds.

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

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

Proposition 46

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

Proposition 39

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

Section 1(b)(3) of Article XIIIA has been added to exempt from the 1% *ad valorem* tax limitation under Section 1(a) of Article XIIIA of the Constitution levies to pay bonds approved by the 55% of the voters, subject to the restrictions explained above. The *ad valorem* tax for payment on the 2019 Bonds falls within the exception described in the preceding sentence.

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

Propositions 98 and 111

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

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

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

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

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

Proposition 1A and Proposition 22

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

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

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

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

Proposition 30

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

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

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for K-14 school districts. See "– Propositions 98 and 111" herein. From an accounting perspective, the revenues generated from the personal income tax increases are being deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing board is prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Proposition 2

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

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

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

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

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

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

The 2019 Bonds are payable from *ad valorem* property taxes to be levied within the District pursuant to the State Constitution and other State law. Accordingly, the District does not expect SB 751 to adversely affect its ability to pay the principal of and interest on the 2019 Bonds as and when due.

California Senate Bill 222

On July 13, 2015, the Governor signed Senate Bill 222 ("SB 222") into law, effective January 1, 2016. SB 222 was introduced on February 12, 2015, initially to amend Section 15251 of the California Education

Code to clarify the process of lien perfection for general obligation bonds issued by or on behalf of California school and community college districts. Subsequently, on April 15, 2015, SB 222 was amended to include an addition to the California Government Code to similarly clarify the process of lien perfection for general obligation bonds issued by cities, counties, authorities and special districts, including the District.

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

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

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

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

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

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

PROPOSITION 51
Use of Bond Funds
(In Millions)

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

Jarvis v. Connell

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

Future Initiatives

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

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

STATE OF CALIFORNIA FISCAL ISSUES

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

General Overview

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

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

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

2019-20 State Budget

On June 27, 2019 the Governor signed into law the State budget for fiscal year 2019-20 (the "2019-20 Budget"). The following information is drawn from the State Department of Finance's summary of the 2019-20 Budget.

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

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

- *Local Control Funding Formula* – An increase of $1.9 billion in Proposition 98 funding for the LCFF, reflecting a 3.26% COLA.

- *Settle-Up Payment* – An increase of $686.6 million for K-14 school districts to pay the balance of past-year Proposition 98 funding owed through fiscal year 2017-18.

- *Special Education* – $645.3 million in ongoing Proposition 98 funding for special education. Specifically, the 2019-20 Budget allocates (i) $152.6 million to provide all special education local area plans at least the Statewide target rate for base special education funding, and (ii) $492.7 million in special education funding, to be allocated to school districts based on the number of children between three to five years of age and with exceptional needs that are being served.

- *Pension Costs* – A $3.15 billion payment from non-Proposition 98 funds to CalSTRS and CalPERS, to reduce long-term liabilities for K-14 school districts. Of this amount, $850 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. With these payments, CalSTRS employer contributions will be reduced from 18.13% to 17.1% in fiscal year 2019-20, and from 19.1% to 18.4% in fiscal year 2020-21. The CalPERS employer contribution will be reduced from 20.7% to 19.7% in fiscal year 2019-20, and the projected CalPERS employer contribution is expected to be reduced from 23.6% to 22.9 % in fiscal year 2020-21. The remaining $2.3 billion would be paid towards employers' long-term unfunded liability. See also "THE DISTRICT—Retirement System."

- *After School Programs* - $50 million in ongoing Proposition 98 funding to provide an increase of approximately 8.3% to the per-pupil daily rate for after school education and safety programs.

- *Teacher Support* - $43.8 million in one-time non-Proposition 98 funding to provide training and resources for classroom educators and paraprofessionals, to build capacity in key State priorities. The 2019-20 Budget also includes $89.8 in one-time, non-Proposition 98 funding to provide up to 4,487 grants for students enrolled in professional teacher preparation programs who commit to working in a high-need field at a priority school for at least four years.

- *Broadband Infrastructure* - $7.5 million in one-time, non-Proposition 98 funding for broadband infrastructure improvements at local educational agencies.

- *Full-Day Kindergarten* - $300 million in one-time, non-Proposition 98 funding to finance construction or retrofit of facilities to support full-day kindergarten programs.

- *Wildfire-Related Cost Adjustments* – An increase of $2 million in one-time Proposition 98 funding to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires which occurred in 2017 and 2018. The 2019-20 Budget also holds both school districts and charter schools impacted by wildfires in 2018 harmless in terms of State funding for two years.

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

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

Future Actions

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

State Dissolution of Redevelopment Agencies

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

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

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

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

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

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

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

TAX MATTERS

Series 2019A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond 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, interest on the Series 2019A Bonds 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. Bond Counsel is of the further opinion that interest on the Series 2019A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix A hereto.

To the extent the issue price of any maturity of the Series 2019A Bonds is less than the amount to be paid at maturity of such Series 2019A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2019A Bonds 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 maturity of the Series 2019A Bonds is the first price at which a substantial amount of such maturity of the Series 2019A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2019A Bonds accrues daily over the term to maturity of such Series 2019A Bonds 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 Series 2019A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2019A Bonds. Beneficial owners of the Series 2019A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2019A Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2019A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2019A Bonds is sold to the public.

Series 2019A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds 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 on obligations such as the Series 2019A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2019A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2019A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2019A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond 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 Bond Counsel's attention after the date of issuance of the Series 2019A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2019A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2019A Bonds 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 on, the Series 2019A Bonds may otherwise affect a beneficial owner'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. Bond 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 on the Series 2019A Bonds 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 Series 2019A Bonds. Prospective purchasers of the Series 2019A Bonds 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 Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2019A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond 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.

Bond Counsel's engagement with respect to the Series 2019A Bonds ends with the issuance of the Series 2019A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District, or the beneficial owners regarding the tax-exempt status of the Series 2019A Bonds 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 Series 2019A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2019A Bonds, and may cause the District or the beneficial owners to incur significant expense.

Series 2019B Bonds

In the opinion of Bond 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, interest on the Series 2019B Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Series 2019B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Series 2019B Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix A hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2019B Bonds that acquire their Series 2019B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2019B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Series 2019B Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Series 2019B Bonds pursuant to this offering for the issue price that is applicable to such Series 2019B Bonds (i.e., the price at which a substantial amount of the Series 2019B Bonds are sold to the public) and who will hold their Series 2019B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series 2019B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series 2019B Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2019B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2019B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2019B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Series 2019B Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Series 2019B Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the Series 2019B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Series 2019B Bonds is less than the amount to be paid at maturity of such Series 2019B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019B Bonds) by more than a de minimis amount, the difference may constitute original issue discount ("OID"). U.S. Holders of Series 2019B Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Series 2019B Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Series 2019B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series 2019B Bond.

Sale or Other Taxable Disposition of the Series 2019B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Series 2019B Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2019B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2019B Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Series 2019B Bond (generally, the purchase price paid by the U.S. Holder for the Series 2019B Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series 2019B Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2019B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2019B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Series 2019B Bonds. If the District defeases any Series 2019B Bond, the Series 2019B Bond may be deemed to be retired and "reissued" for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the Series 2019B Bond.

Information Reporting and Backup Withholding. Payments on the Series 2019B Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2019B Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Series 2019B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2019B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act," payments of principal of, and interest on, any Series 2019B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such Series 2019B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Series 2019B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series 2019B Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District or a deemed retirement due to defeasance of the Series 2019B Bond) or other disposition of a Series 2019B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2019B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Series 2019B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payments of principal and interest on any Series 2019B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2019B Bond or a financial institution holding the Series 2019B Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

Foreign Account Tax Compliance Act ("FATCA") – U.S. Holders and Non-U.S. Holders. Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the 2019 Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain "passthru" payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term "foreign passthru payments." Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Series 2019B Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series 2019B Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

LEGAL MATTERS

Legal Opinion

The validity of the 2019 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the 2019 Bonds at the time of issuance substantially in the form set forth in Appendix A hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Legality for Investment in California

Under provisions of the California Financial Code, the 2019 Bonds are legal investments for commercial banks in California to the extent that the 2019 Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in the State.

No Litigation

No litigation is pending or threatened concerning the validity of the 2019 Bonds, and a certificate to that effect will be furnished by the District at the time of the original delivery of the 2019 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue and retire the 2019 Bonds.

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

CONTINUING DISCLOSURE

In connection with the issuance of the 2019 Bonds, the District will covenant for the benefit of bondholders (including Beneficial Owners of the 2019 Bonds) to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than nine months following the end of the District's fiscal year (which currently ends June 30), commencing with the report for fiscal year 2018-19, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed by the District in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Reports or the notices of enumerated events is included in Appendix C—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

In each of the last five years the District has caused its annual reports required under its previous undertakings under the Rule to be filed on a timely basis. In the last five years, the District has also, to its knowledge, complied with its previous undertakings to report certain enumerated events.

MISCELLANEOUS

Ratings

S&P Global Ratings, a Standard & Poor's Financial Services LLP Business ("S&P") and Moody's Investor's Service, Inc. ("Moody's") have assigned the ratings of "AA-" and "Aa2," respectively, to the 2019 Bonds. The ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from S&P and Moody's. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any rating for the 2019 Bonds will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2019 Bonds.

Underwriting

The 2019 Bonds are being purchased for reoffering by Raymond James & Associates, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the 2019 Bonds pursuant to a Bond Purchase Contract with the District (the "Bond Purchase Agreement") at the initial purchase price of $_________ (being equal to the aggregate principal amount of the 2019 Bonds, less an Underwriter's discount of $_______, plus an original issue premium of $________). The Bond Purchase Agreement provides that the Underwriter will purchase all of the 2019 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement. The Underwriter may offer and sell the 2019 Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

Audited Financial Statements

The District's audited financial statements for fiscal year 2017-18 included in this Official Statement have been audited by Christy White Associates, a Professional Accountancy Corporation, San Diego, California (the "Auditor"), independent auditors. Attention is called to the scope limitation described in the Auditor's report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for fiscal year 2017-18 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 14, 2018. See Appendix B—"DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS" herein.

Financial Interests

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and the District's Municipal Advisor are contingent upon the issuance and delivery of the 2019 Bonds.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the 2019 Bonds. Quotations from and summaries and explanations of the 2019 Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

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 2019 Bonds.

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT

By: ______________________________

Superintendent

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APPENDIX A

PROPOSED FORM OF OPINION OF BOND COUNSEL FOR THE 2019 BONDS

Upon issuance and delivery of the 2019 Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the 2019 Bonds in substantially the following form:

[Date of Delivery]

Garden Grove Unified School District
Garden Grove, California

Garden Grove Unified School District
(Orange County, California)
General Obligation Refunding Bonds, Series 2019A (Tax-Exempt)

Garden Grove Unified School District
(Orange County, California)
General Obligation Refunding Bonds, Series 2019B (Federally Taxable)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Garden Grove Unified School District (the "District"), which is located in the County of Orange (the "County"), in connection with the issuance by the District of $__________ aggregate principal amount of Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019A (Tax-Exempt) (the "Series 2019A Bonds") and $__________ aggregate principal amount of Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019B (Federally Taxable) (the "Series 2019B Bonds" and together with the Series 2019A Bonds, the "Series 2019 Bonds"), pursuant to a resolution of the Board of Education of the District adopted on September 17, 2019 (the "Resolution"). Capitalized undefined terms used herein have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), relating to the Series 2019A Bonds, certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

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 Series 2019 Bonds has concluded with their issuance, 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. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof.

Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2019A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2019 Bonds, the Resolution 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 or counties 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 assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. 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 Series 2019 Bonds 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 Series 2019 Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2019 Bonds and the interest thereon.

4. Interest on the Series 2019A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series 2019A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2019 Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX B

DISTRICT’S 2017-18 AUDITED FINANCIAL STATEMENTS

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GARDEN GROVE UNIFIED SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2018

San Diego

Los Angeles

San Francisco Bay Area

christy white associates
A PROFESSIONAL ACCOUNTANCY CORPORATION

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

OTHER INDEPENDENT AUDITORS' REPORTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

christy white associates
A PROFESSIONAL ACCOUNTANCY CORPORATION

Christy White, CPA
Michael D. Ash, CPA
John Whitehouse, CPA
Heather Daud Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

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fax: 619.260.9085
www.christywhite.com

Licensed by the California State Board of Accountancy

INDEPENDENT AUDITORS' REPORT

Governing Board
Garden Grove Unified School District
Garden Grove, 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 Garden Grove Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Garden Grove Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Garden Grove Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 10 to the financial statements, in 2018 Garden Grove Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of changes in total OPEB liability and related ratios, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of Garden Grove Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Garden Grove Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Garden Grove Unified School District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 14, 2018

GARDEN GROVE UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

- The District's total net position decreased 10.22% from 2016-2017, due to the GASB 75 restatement of total OPEB liability (Table 1)
- Overall revenues were $602.0 million, $14.3 million more than expenses (Table 2)
- The net cost of basic programs decreased 1.68% to $471.2 million (Table 3)
- The District invested in:
  - Two (2) hearing screening systems - $17,983
  - Two (2) vision screening systems - $17,383
  - Warehouse Lift Truck and Fork Lift - $69,731
  - Warehouse Pallet Rack project - $88,580
  - Smoke Inspection System (Transportation) - $17,597
- CTE/ROP Program purchases include:
  - Auto Shop at three (3) sites - $306,957
  - CTE projects at four (4) high schools - $1,214,941
- The District invested the following in Information Technology purchases and improvements:
  - Video surveillance project - $184,610
  - Firewall Security - $69,599
  - Virtual Computer Software project - $163,016
  - Data storage system - $41,881
  - Hardware/software bundle - $152,167
  - Cabling projects totaling $823,706; of this $700,150 was an E-rate donation
- Food Services expenditures included the following capitalized items:
  - Eight (8) Cabinets - $50,276
  - Eight (8) Ovens - $81,043
  - One (1) Gas Steam Kettle - $16,971
  - Two (2) Stainless Steel Sinks - $48,908
  - Two (2) Tilting Skillet Braising Pans - $39,887
- School Improvement Projects include:
  - Playground Structures at sixteen (16) schools - $778,878
  - Shade Structures at four (4) schools - $197,040
  - Fence projects at four (4) schools - $281,485
  - Pool project at one (1) high school - $75,800
  - Parking Lot project at one (1) elementary school - $44,689
  - Drought Tolerant Landscape (DTL) project at three (3) schools - $199,938
  - Audio project at one (1) high school - $29,946
  - Heating Ventilation Air Conditioning (HVAC) projects at seven (7) schools - $4,115,390
  - Lunch Table projects at five (5) schools - $160,645
  - Roof Repairs at two (2) sites - $149,207

FINANCIAL HIGHLIGHTS (continued)

- Maintenance and Operations (M&O) equipment purchases and improvements include:
  - Twenty-five (25) trucks - $1,143,515
  - Five (5) cargo vans - $158,146
  - One (1) mower - $67,536
  - One (1) chipper truck - $84,553
  - Fire Restoration project at one (1) high school - $650,573
  - Maintenance & Operations (M & O) relocation costs - $591,646
- Facilities Projects include:
  - Work in Progress for modernization - $107.7 million
    - Costs captured through the work order system - $98,188
  - Completed modernization projects at two (2) sites - $53.2 million

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

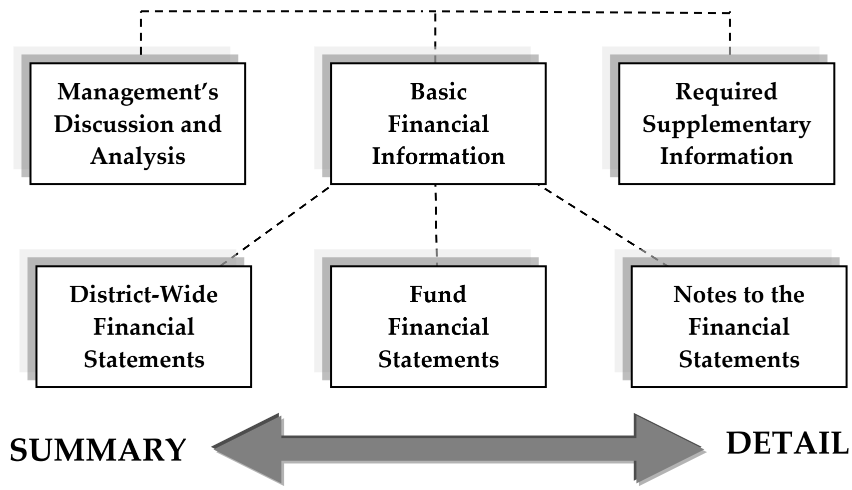
- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short- and long-term financial information about the District's self-insurance funds.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Components of the Financials Section

Figure A-1. Organization of Garden Grove Unified School District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including a portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**District-Wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses & Changes in Net Position • Statement of Cash Flows	• Statement of Net Position • Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital; short-term and long-term	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain nonfinancial assets, although, they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

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

The two district-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or position.

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

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debt) or to show that it is properly using certain revenues (such as federal grants).

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the end of the governmental funds statement that explains the relationship (or differences) between them.

- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported similar to the district-wide statements.

  - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the self-insurance fund.

- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position. The District's net position as of June 30, 2018 was $525.1 million, reflecting a decrease of 10.22% since June 30, 2017 (see Table 1).

Table 1
Governmental Activities

	2018	2017	Percentage Change
ASSETS			
Current and other assets	$ 547,982,044	$ 637,555,187	-14.05%
Capital assets	986,690,665	865,591,742	13.99%
Total Assets	1,534,672,709	1,503,146,929	2.10%
DEFERRED OUTFLOWS OF RESOURCES	176,836,293	109,727,567	61.16%
LIABILITIES			
Current liabilities	89,371,770	67,978,905	31.47%
Long-term liabilities	1,068,862,752	947,548,765	12.80%
Total Liabilities	1,158,234,522	1,015,527,670	14.05%
DEFERRED INFLOWS OF RESOURCES	28,199,371	12,473,817	126.07%
NET POSITION			
Net investment in capital assets	683,716,452	647,353,339	5.62%
Restricted	92,418,247	103,386,047	-10.61%
Unrestricted	(251,059,590)	(165,866,377)	51.36%
Total Net Position	$ 525,075,109	$ 584,873,009	-10.22%

The District's financial position is the product of many factors including funding under the Local Control Funding Formula (LCFF) and the receipt of state modernization funds for our capital improvement projects. It is also impacted by GASB 68 as explained in the section titled Economic Factors and Next Year's Budget (page 16).

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in net position. The District's total revenues decreased 3.38% to $602.0 million. (See Table 2) Property taxes and state formula aid accounted for most of the District's revenue, contributing about 78.52% of every dollar raised. (See Figure A-3.) Another 18.80% came from operating and capital grants and contributions, and the remainder came from miscellaneous sources and fees charged for services.

The total cost of all programs and services decreased 6.36% to $587.7 million. The District's expenses are predominantly related to educating and caring for students (80.05%). (See Figure A-4.) The purely administrative activities of the District accounted for 4.55% of total costs.

Total revenues surpassed expenditures by $14.3 million.

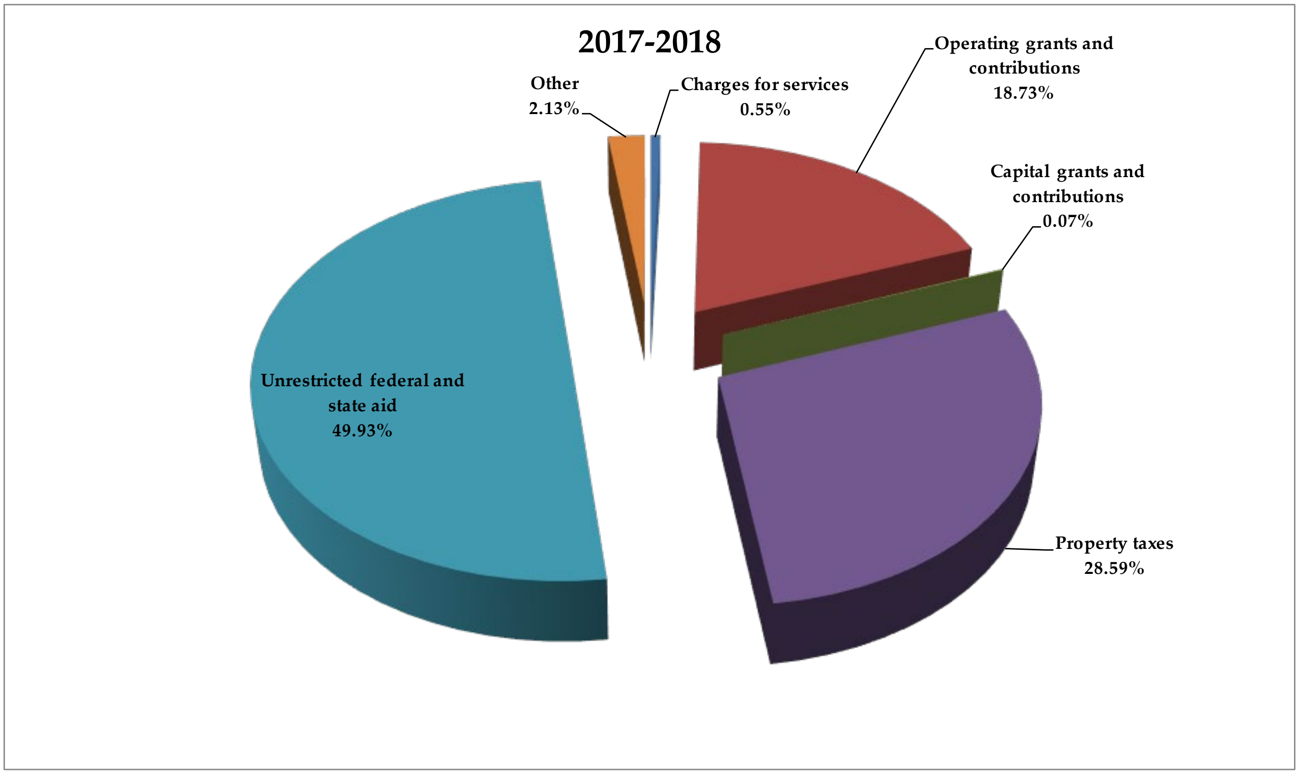
Table 2

	Governmental Activities		
	2018	**2017**	**Percentage Change**
REVENUES			
Program revenues			
Charges for services	$ 3,306,080	$ 4,828,097	-31.52%
Operating grants and contributions	112,742,474	142,856,637	-21.08%
Capital grants and contributions	439,953	643,240	-31.60%
General revenues			
Property taxes	172,129,573	144,739,122	18.92%
Unrestricted federal and state aid	300,603,498	320,258,445	-6.14%
Other	12,800,489	9,777,600	30.92%
Total Revenues	602,022,067	623,103,141	-3.38%
EXPENSES			
Instruction	341,665,610	383,128,001	-10.82%
Instruction-related services	56,943,207	61,644,092	-7.63%
Pupil services	71,853,573	73,739,226	-2.56%
General administration	26,754,858	24,822,947	7.78%
Plant services	56,332,738	50,220,340	12.17%
Ancillary and community services	10,621,860	11,766,108	-9.72%
Debt service	16,813,079	15,252,288	10.23%
Other outgo	6,693,164	6,937,165	-3.52%
Enterprise activities	18,866	92,358	-79.57%
Total Expenses	587,696,955	627,602,525	-6.36%
Change in net position	14,325,112	(4,499,384)	-418.38%
Net Position - Beginning, as Restated*	510,749,997	589,372,393	-13.34%
Net Position - Ending	$ 525,075,109	$ 584,873,009	-10.22%

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

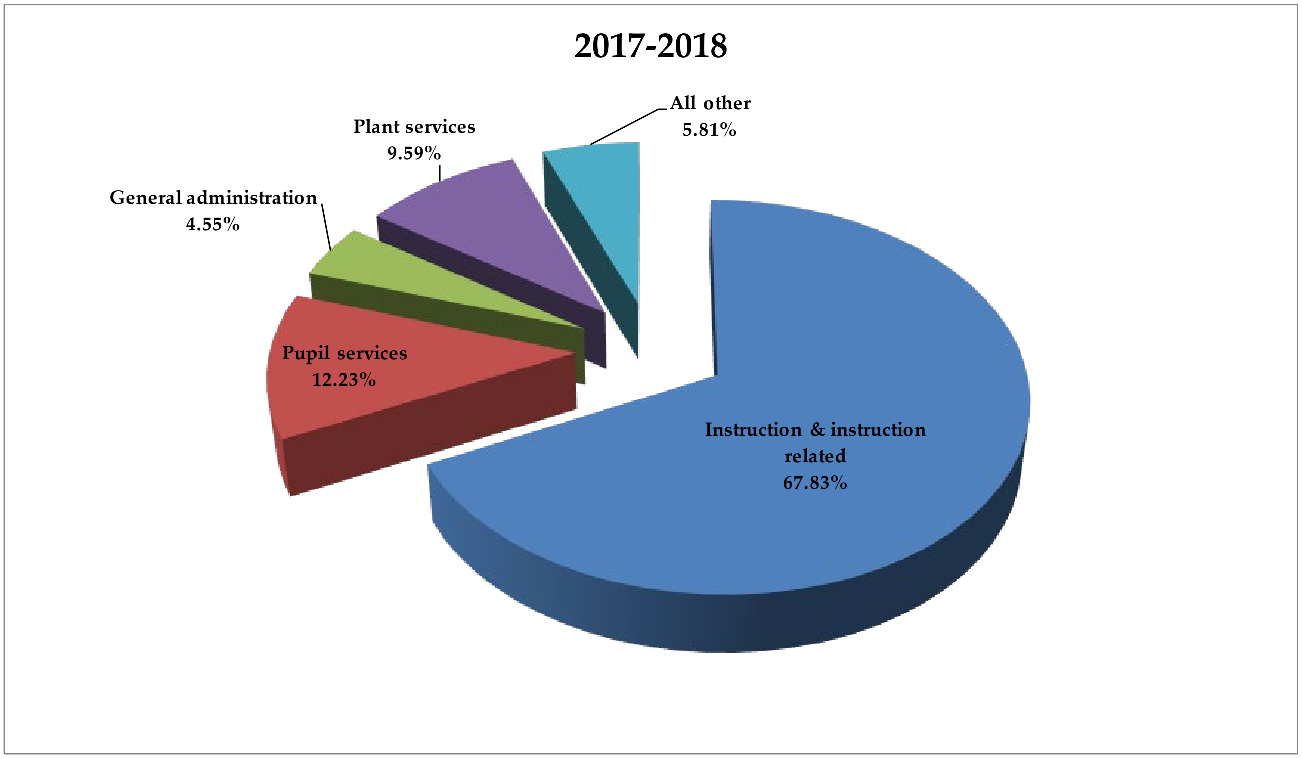
FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Figure A-3
Sources of Garden Grove Unified School District's Revenues for Fiscal Year 2018



FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Figure A-4
Sources of Garden Grove Unified School District's Expenses for Fiscal Year 2018



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities

Revenues for the District's governmental activities decreased 3.38%, and total expenses decreased 6.36%. The net position decreased 10.22% in 2017-2018, compared to a decrease of 0.76% last year, due to a restatement (see Note 16).

The District's financial health can be credited to the following management actions:

- Conservative District philosophy, fiscal management and cash flow management.
- The District maintains a highly centralized budgeting approach that allows for tight controls at the administrative level.
- Position control procedures require budget allocation and approval prior to creation of new positions insuring that communication is maintained between the Business Office and the Personnel Office.
- Class sizes are monitored closely in all grades to assure that teacher-student ratios are optimum.
- The Business Office annually prepares a 2-year budget projection allowing decisions to be made in advance of anticipated budget changes.
- Expenditures are analyzed for appropriateness to maximize instructional effectiveness.

The Statement of Activities categorizes the activities presented in Table 2 by revenue source:

- The total cost of all governmental activities this year was $587.7 million.
- The amount of $3.3 million was paid by the users of the District's programs.
- The federal and state governments subsidized programs with grants and contributions totaling $112.7 million.
- State Modernization Program further added $0.4 million toward the cost of all activities.
- District taxpayers and the taxpayers of California paid $472.7 million, supporting the majority of the District's costs.
- Local and miscellaneous revenues account for $12.8 million.
- Net position increased $14.3 million in 2017-18.

Table 3 shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Governmental Activities (continued)

Table 3
Net Cost of Services

	2018	2017	Percentage Change
Instruction	$ 291,532,203	$ 302,758,819	-3.71%
Instruction-related services	43,640,464	47,406,887	-7.94%
Pupil services	40,572,845	42,933,925	-5.50%
General administration	16,934,318	21,325,707	-20.59%
Plant services	55,582,324	43,002,641	29.25%
Ancillary and community services	3,900,219	4,265,327	-8.56%
Debt service	16,813,079	15,252,288	10.23%
Transfers to other agencies	2,221,774	2,261,798	-1.77%
Enterprise activities	11,222	67,159	-83.29%
Total Expenses	$ 471,208,448	$ 479,274,551	-1.68%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, the governmental funds reflected a combined fund balance amount of $313.2 million, compared to last year's restated fund balance amount of $403.2 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Major budget amendments between the Adopted Budget and the Final Budget are explained below.

Over the course of the year, the Board approved four versions of the operating budget. These budget revisions fall into the categories of Adopted, First Interim, Second Interim and Final. At each reporting period the Board approved the budget revisions and appropriation transfers that were presented.

Revenues under Local Control Funding Formula (LCFF) were decreased by $769 thousand due to factors outlined in the chart below:

Factor	2017-2018 Adopted	2017-2018 Unaudited Actuals	Difference
COLA	1.56%	1.56%	No Change
GAP	43.97%	42.97%	(1.00%)
2017-18 Unduplicated Pupil Percentage	80.09%	76.60%	(3.49%)
3-Year Rolling Average Percentage	76.61%	75.62%	(0.99%)

Federal revenues increased overall by $1.7 million. Budgetary increases were primarily made in Title I Part A of the Elementary and Secondary (ESEA) and Medi-Cal.

Federal revenue decreases were made in Special Education IDEA Basic Local Assistance and Title IV Part B, 21st Century Community Learning Centers Programs.

State revenue increased overall by $23.6 million. Budgetary increases were mainly made in California Clean Energy Jobs Act (Prop 39), Career Technical Education Incentive Grant (CTEIG) Program, Lottery, After School Education and Safety, and STRS On-Behalf.

Overall local revenues increased by $5.8 million. Increases include Donations and Gifts, Interest, Miscellaneous, Vandalism Reimbursement, Career Technical Education /Regional Occupation Program (CTE/ROP), and School-Based Medi-Cal Administrative Activities (SMAA).

Major budget amendments in expenditures include a negotiated salary settlement for CSEA and Supervisory employees of 0.5% increase on the schedule, a liability for a negotiated 2% one-time off-schedule increase, and changes in staff due to actual enrollment, along with categorical and Special Education staffing. Employee benefits changed based on salary adjustments and changes in health premiums, PERS and STRS rate increases, and the STRS On-Behalf payment was included. Books, supplies and services were adjusted as necessary to meet program and educational requirements. Capital outlay budgets increased in information technology, transportation, and equipment related to the MOT Priority Study Year Four results.

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

As shown on page 79, the District's Final Budget for the general fund shows anticipated revenues and transfers-in to be approximately $80.8 million less than expenditures and transfers-out; and the actual results for the year show a $6.3 million decrease.

Instructional and instruction-related functions were budgeted at $424.4 million, however, expenditures were actually $379.2 million, primarily due to: unspent one-time site grants for textbooks, Site Local Control Funding Formula (LCFF), ROP Special Projects, and unrestricted educational programs. These unspent funds will be carried over into 2018-19. Also, several programs such as Title I, Title II, Title III, and Site Local Control Funding Formula (LCFF) hold amounts in contingency until necessary and the amounts are then carried over if unused. Contingency amounts totaling $9.7 million have an instruction-related designation until allocated for actual use.

Pupil service categories were budgeted at $54.2 million and actual amounts were $44.7 million. Pupil service function includes the categories of Guidance, Psychological, Attendance/Social Welfare, Health, Pupil Testing, Speech/Pathology, and Transportation. Unspent amounts in this category were $9.5 million, and relate to contingency amounts in funding for Medi-Cal and Transportation GPS Tracking System, as well as unspent Mental Health funds budgeted for services.

General administrative costs were budgeted at $28.2 million; actual expenditures were $22.8 million. The unspent administrative cost balances included Information Technology Projects. These amounts were budgeted for in 2017-2018 and expenditures are to be continued in 2018-2019.

Maintenance and operations of school facilities were budgeted at $59.0 million; actual expenditures were $50.2 million, which primarily consisted of savings due to vacant positions and utility costs.

Budgeted facility acquisition and construction dollars were $20.0 million; actual expenditures were $6.4 million. These amounts contained projects that were budgeted in 2017-2018 and are to be continued in 2018-2019. These projects involved the California Clean Energy Jobs Act (Prop. 39) and school refurbishing projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18 the District had invested an additional net $121.1 million in a broad range of capital assets which include land improvements, building construction, work in progress, and equipment. (See Table 4) This represents a net increase of 13.99% over last year's amount of $865.6 million. (More detailed information about capital assets can be found in Note 1E and Note 4 to the financial statements.) The net depreciation expense for the year was $17.2 million.

Garden Grove Unified School District's student enrollment decreased from 44,493 in 2016-2017 to 43,336 in 2017-2018. Annual trends indicate that statewide enrollment is expected to continue to decline in future years.

Table 4

	Governmental Activities		
	2018	**2017**	**Percentage Change**
CAPITAL ASSETS			
Land	$ 228,184,670	$ 228,184,670	0.00%
Construction in progress	215,591,316	163,001,550	32.26%
Land improvements	17,766,094	16,205,578	9.63%
Buildings & improvements	687,109,264	605,155,402	13.54%
Furniture & equipment	41,722,653	39,482,338	5.67%
Accumulated depreciation	(203,683,332)	(186,437,796)	9.25%
Total Capital Assets	$ 986,690,665	$ 865,591,742	13.99%

In 2018-2019, General Fund has budgeted $5,348,466 for capital projects. The District continues to focus on modernizing facilities.

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Liabilities

At year-end the District had $1.07 billion in long-term liabilities, an increase of 5.75% from last year's restated balance, as shown in Table 5. (More detailed information about the District's long-term liabilities is presented in Note 1E and Note 8 to the financial statements.)

On June 8, 2010 the voters of the District approved by more than 55% Measure A which authorizes $250 million in general obligation bonds for the modernization of district schools. Under state law, the bond money can only be used for acquiring, constructing, or improving school facilities, and furniture and equipment. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure A funds. As of June 30, 2018, $250 million in General Obligation Bonds have been issued.

The use of Measure A funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited.

On November 8, 2016 the voters of the District approved by more than 55% Measure P which authorizes $311 million in general obligation bonds to repair/replace roofs, plumbing, and inadequate electrical systems; install air conditioning; upgrade classrooms, science labs, and access to instructional technology; provide classrooms/labs for career technology education that prepares students for college/careers; improve access for individuals with disabilities and earthquake/fire safety and campus security/lighting/cameras. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure P funds. As of June 30, 2018, $90 million in General Obligation Bonds have been issued.

Table 5

	Governmental Activities		
	2018	**2017**	**Percentage Change**
LONG-TERM LIABILITIES			
Total general obligation bonds	$ 341,168,137	$ 342,395,482	-0.36%
Capital leases	-	43,639	-100.00%
Compensated absences	3,492,875	3,472,441	0.59%
Total OPEB liability*	182,654,195	180,350,799	1.28%
Net pension liability	549,551,047	486,286,907	13.01%
Less: current portion of long-term debt	(8,003,502)	(1,797,382)	345.29%
Total Long-term Liabilities	$ 1,068,862,752	$ 1,010,751,886	5.75%

**Total OPEB liability for 2017 was restated in order to record the District's total OPEB liability in accordance with GASB Statement No. 75 which supersedes GASB Statement No. 45 for the year ended June 30, 2018.*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Roxanne Linss, Director of Business Services, Garden Grove Unified School District, 10331 Stanford Avenue; Garden Grove, California 92840.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	$ 531,306,978
Accounts receivable	15,373,507
Inventory	1,301,559
Capital assets, not depreciated	443,775,986
Capital assets, net of accumulated depreciation	542,914,679
Total Assets	1,534,672,709
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	171,616,727
Deferred outflows related to OPEB	5,219,566
Total Deferred Outflows of Resources	176,836,293
LIABILITIES	
Accrued liabilities	64,246,604
Unearned revenue	1,838,855
Claims liabilities	15,282,809
Long-term liabilities, current portion	8,003,502
Long-term liabilities, non-current portion	1,068,862,752
Total Liabilities	1,158,234,522
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	28,014,703
Deferred inflows related to OPEB	184,668
Total Deferred Inflows of Resources	28,199,371
NET POSITION	
Net investment in capital assets	683,716,452
Restricted:	
Capital projects	55,828,490
Debt service	10,565,725
Educational programs	12,485,583
All others	13,538,449
Unrestricted	(251,059,590)
Total Net Position	$ 525,075,109

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES					
Instruction	$ 341,665,610	$ 80,401	$ 49,613,053	$ 439,953	$ (291,532,203)
Instruction-related services					
Instructional supervision and administration	20,859,505	6,261	9,754,478	-	(11,098,766)
Instructional library, media, and technology	2,010,875	11,016	541,445	-	(1,458,414)
School site administration	34,072,827	170,407	2,819,136	-	(31,083,284)
Pupil services					
Home-to-school transportation	14,461,060	-	-	-	(14,461,060)
Food services	23,113,685	2,117,385	20,241,268	-	(755,032)
All other pupil services	34,278,828	28,753	8,893,322	-	(25,356,753)
General administration					
Centralized data processing	6,208,069	-	-	-	(6,208,069)
All other general administration	20,546,789	654,769	9,165,771	-	(10,726,249)
Plant services	56,332,738	39,553	710,861	-	(55,582,324)
Ancillary services	10,324,753	308	6,721,333	-	(3,603,112)
Community services	297,107	-	-	-	(297,107)
Enterprise activities	18,866	-	7,644	-	(11,222)
Interest on long-term debt	16,813,079	-	-	-	(16,813,079)
Other outgo	6,693,164	197,227	4,274,163	-	(2,221,774)
Total Governmental Activities	$ 587,696,955	$ 3,306,080	$ 112,742,474	$ 439,953	(471,208,448)
	General revenues				
	Taxes and subventions				
	Property taxes, levied for general purposes				144,033,980
	Property taxes, levied for debt service				20,505,410
	Property taxes, levied for other specific purposes				7,590,183
	Federal and state aid not restricted for specific purposes				300,603,498
	Interest and investment earnings				3,440,870
	Interagency revenues				498,713
	Miscellaneous				8,860,906
	Subtotal, General Revenue				485,533,560
	CHANGE IN NET POSITION				14,325,112
	Net Position - Beginning, as Restated				510,749,997
	Net Position - Ending				$ 525,075,109

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	$ 129,612,970	$ 49,958,922	$ 89,454,005	$ 93,055,394	$ 362,081,291
Accounts receivable	9,390,659	69,935	118,991	5,508,225	15,087,810
Due from other funds	1,655,505	3,110,958	11,218,737	346,752	16,331,952
Stores inventory	909,775	-	-	391,784	1,301,559
Total Assets	$ 141,568,909	$ 53,139,815	$ 100,791,733	$ 99,302,155	$ 394,802,612
LIABILITIES					
Accrued liabilities	$ 31,822,812	$ 6,441,319	$ 11,461,816	$ 4,614,045	$ 54,339,992
Due to other funds	12,074,711	11,268,320	-	2,112,363	25,455,394
Unearned revenue	1,440,427	-	-	398,428	1,838,855
Total Liabilities	45,337,950	17,709,639	11,461,816	7,124,836	81,634,241
FUND BALANCES					
Nonspendable	1,109,775	-	-	417,360	1,527,135
Restricted	11,607,755	35,430,176	-	87,742,175	134,780,106
Committed	32,916,549	-	-	3,020,571	35,937,120
Assigned	30,247,654	-	89,329,917	-	119,577,571
Unassigned	20,349,226	-	-	997,213	21,346,439
Total Fund Balances	96,230,959	35,430,176	89,329,917	92,177,319	313,168,371
Total Liabilities and Fund Balances	$ 141,568,909	$ 53,139,815	$ 100,791,733	$ 99,302,155	$ 394,802,612

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

Total Fund Balance - Governmental Funds		$ 313,168,371
Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:		
Capital assets:		
In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:		
Capital assets	$ 1,190,373,997	
Accumulated depreciation	(203,683,332)	986,690,665
Unmatured interest on long-term debt:		
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:		(6,931,683)
Long-term liabilities:		
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Total general obligation bonds	$ 341,168,137	
Compensated absences	3,492,875	
Net pension liability	549,551,047	(894,212,059)
Deferred outflows and inflows of resources relating to pensions:		
In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.		
Deferred outflows of resources related to pensions	$ 171,616,727	
Deferred inflows of resources related to pensions	(28,014,703)	143,602,024
Internal service funds:		
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:		(17,242,209)
Total Net Position - Governmental Activities		$ 525,075,109

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

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	$ 425,036,957	$ -	$ -	$ 4,092,548	$ 429,129,505
Federal sources	30,182,062	-	-	22,637,206	52,819,268
Other state sources	76,846,767	-	-	8,687,134	85,533,901
Other local sources	9,350,540	1,061,135	826,062	34,310,311	45,548,048
Total Revenues	541,416,326	1,061,135	826,062	69,727,199	613,030,722
EXPENDITURES					
Current					
Instruction	326,025,141	-	-	5,381,076	331,406,217
Instruction-related services					
Instructional supervision and administration	20,091,189	-	-	612,180	20,703,369
Instructional library, media, and technology	1,833,054	-	-	83,854	1,916,908
School site administration	31,285,630	-	-	1,522,606	32,808,236
Pupil services					
Home-to-school transportation	13,744,258	-	-	-	13,744,258
Food services	120,211	-	-	22,523,734	22,643,945
All other pupil services	30,878,193	-	-	914,386	31,792,579
General administration					
Centralized data processing	5,829,781	-	-	-	5,829,781
All other general administration	16,905,978	-	-	1,097,651	18,003,629
Plant services	50,150,891	-	37,835	1,250,336	51,439,062
Facilities acquisition and maintenance	6,411,022	76,375,349	24,120,028	31,020,919	137,927,318
Ancillary services	10,281,303	-	-	-	10,281,303
Community services	289,305	-	-	-	289,305
Enterprise activities	18,866	-	-	-	18,866
Transfers to other agencies	7,346,666	-	-	-	7,346,666
Debt service					
Principal	43,639	-	-	1,100,000	1,143,639
Interest and other	1,824	-	-	16,426,765	16,428,589
Total Expenditures	521,256,951	76,375,349	24,157,863	81,933,507	703,723,670
Excess (Deficiency) of Revenues					
Over Expenditures	20,159,375	(75,314,214)	(23,331,801)	(12,206,308)	(90,692,948)
Other Financing Sources (Uses)					
Transfers in	873,738	-	38,218,737	352,183	39,444,658
Transfers out	(27,352,183)	(11,218,737)	-	(201,082)	(38,772,002)
Net Financing Sources (Uses)	(26,478,445)	(11,218,737)	38,218,737	151,101	672,656
NET CHANGE IN FUND BALANCE	(6,319,070)	(86,532,951)	14,886,936	(12,055,207)	(90,020,292)
Fund Balance - Beginning, as Restated	102,550,029	121,963,127	74,442,981	104,232,526	403,188,663
Fund Balance - Ending	$ 96,230,959	$ 35,430,176	$ 89,329,917	$ 92,177,319	$ 313,168,371

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

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

Net Change in Fund Balances - Governmental Funds		$ (90,020,292)
Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:		
Capital outlay:		
In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:		
Expenditures for capital outlay:	$ 138,815,827	
Depreciation expense:	(17,716,904)	121,098,923
Debt service:		
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		1,143,639
Unmatured interest on long-term debt:		
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:		141,667
Accreted interest on long-term debt:		
In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current sources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.		(526,157)
Compensated absences:		
In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:		(20,434)

(continued on next page)

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

Pensions:	
In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:	(16,915,866)
Amortization of debt issuance premium or discount:	
In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:	653,502
Internal Service Funds:	
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:	(1,229,870)
Change in Net Position of Governmental Activities	$ 14,325,112

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

	Governmental Activities Internal Service Fund
ASSETS	
Current assets	
Cash and investments	$ 169,225,687
Accounts receivable	285,697
Due from other funds	9,378,011
Total Assets	178,889,395
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to OPEB	5,219,566
Total Deferred Outflows of Resources	5,219,566
LIABILITIES	
Current liabilities	
Accrued liabilities	2,974,929
Due to other funds	254,569
Total current liabilities	3,229,498
Non-current liabilities	
Claims liabilities	15,282,809
Total OPEB liability	182,654,195
Total non-current liabilities	197,937,004
Total Liabilities	201,166,502
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB	184,668
Total Deferred Inflows of Resources	184,668
NET POSITION	
Restricted	(17,242,209)
Total Net Position	$ (17,242,209)

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

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

	Governmental Activities
	Internal Service Fund
OPERATING REVENUE	
Charges for services	$ 55,310,314
Other local revenues	5,557,805
Total operating revenues	60,868,119
OPERATING EXPENSE	
Salaries and benefits	1,320,153
Supplies and materials	3,349
Professional services	62,170,223
Total operating expenses	63,493,725
Operating income/(loss)	(2,625,606)
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	2,055,475
Grant income	12,917
Transfers out	(672,656)
Total non-operating revenues/(expenses)	1,395,736
CHANGE IN NET POSITION	(1,229,870)
Net Position - Beginning, as restated	(16,012,339)
Net Position - Ending	$ (17,242,209)

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

GARDEN GROVE UNIFIED SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities
	Internal Service Fund
Cash flows from operating activities	
Cash received (paid) from assessments made to (from) other funds	$ 55,928,754
Cash payments for payroll, insurance, and operating costs	(63,239,857)
Net cash provided by (used for) operating activities	(7,311,103)
Cash flows from non-capital financing activities	
Non-operating grants received	12,917
Interfund transfers in (out)	(672,656)
Net cash provided by (used for) non-capital financing activities	(659,739)
Cash flows from investing activities	
Interest received	2,055,475
Net cash provided by (used for) investing activities	2,055,475
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,915,367)
CASH AND CASH EQUIVALENTS	
Beginning of year	175,141,054
End of year	$ 169,225,687
Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income (loss)	$ (2,625,606)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	29,150
(Increase) decrease in due from other funds	(4,968,515)
(Increase) decrease in deferred outflows of resources	(1,175,446)
Increase (decrease) in accounts payable	(17,371)
Increase (decrease) in due to other funds	(362,964)
Increase (decrease) in claims liabilities	(493,747)
Increase (decrease) in total OPEB liabilities	2,303,396
Net cash provided by (used for) operating activities	$ (7,311,103)

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

STATEMENT OF NET POSITION
JUNE 30, 2018

	Agency Funds
	Student Body Fund
ASSETS	
Cash and investments	$ 1,690,268
Total Assets	$ 1,690,268
LIABILITIES	
Due to student groups	$ 1,690,268
Total Liabilities	$ 1,690,268

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The District operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on those criteria, the District has determined that there are no potential component units that should be included in the District's financial reporting entity.

C. Basis of Presentation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

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

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

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

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

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

Adult Education Fund: This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (*Education Code Sections* 52616[b] and 52501.5[a]).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Special Revenue Funds (continued)

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the District for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section* 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section* 8328).

Cafeteria Special Revenue Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections* 38090–38093). The Cafeteria Special Revenue Fund shall be used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code Sections* 38091 and 38100).

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus

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

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)
Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Inventories
Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of $15,000. The District does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Life
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accrued Liabilities and Long-Term Obligations

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

Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balance (continued)

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

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

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

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

F. Interfund Activity

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Estimates

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

H. Budgetary Data

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

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

I. Property Tax

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

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

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

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This standard's primary objective is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The statement is effective for periods beginning after June 15, 2017. The District has implemented GASB Statement No. 85 for the year ended June 30, 2018.

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

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This standard's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement is effective for periods beginning after June 15, 2018. The District has not determined the impact on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Funds	Total Governmental Activities	Fiduciary Funds
Investment in county treasury	$ 353,699,175	$ 164,449,779	$ 518,148,954	$ -
Cash on hand and in banks	8,156,540	4,775,908	12,932,448	1,690,268
Cash in revolving fund	225,576	-	225,576	-
Total cash and investments	$ 362,081,291	$ 169,225,687	$ 531,306,978	$ 1,690,268

B. Policies and Practices

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

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section* 41001. The Orange County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District's investment in the pool is based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately $516,046,171 and an amortized book value of $518,148,954. The average weighted maturity for this pool is 350 days.

NOTE 2 – CASH AND INVESTMENTS (continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2018, the pooled investments in the County Treasury were rated AAAm.

F. Custodial Credit Risk – Deposits

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

G. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

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

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

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value (continued)

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

		Uncategorized
Investment in county treasury	$	516,046,171
Total fair market value of investments	$	516,046,171

NOTE 3 – ACCOUNTS RECEIVABLE

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government						
Categorical aid	$ 1,079,956	$ -	$ -	$ 3,591,060	$ -	$ 4,671,016
State Government						
Categorical aid	1,287,907	-	-	1,193,737	-	2,481,644
Lottery	1,886,290	-	-	-	-	1,886,290
Local Government						
Other local sources	5,136,506	69,935	118,991	723,428	285,697	6,334,557
Total	$ 9,390,659	$ 69,935	$ 118,991	$ 5,508,225	$ 285,697	$ 15,373,507

NOTE 4 – CAPITAL ASSETS

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

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Land	$ 228,184,670	$ -	$ -	$ 228,184,670
Construction in progress	163,001,550	107,720,959	55,131,193	215,591,316
Total Capital Assets not Being Depreciated	391,186,220	107,720,959	55,131,193	443,775,986
Capital assets being depreciated				
Land improvements	16,205,578	1,560,516	-	17,766,094
Buildings & improvements	605,155,402	81,953,862	-	687,109,264
Furniture & equipment	39,482,338	2,711,683	471,368	41,722,653
Total Capital Assets Being Depreciated	660,843,318	86,226,061	471,368	746,598,011
Less Accumulated Depreciation				
Land improvements	10,019,189	512,765	-	10,531,954
Buildings & improvements	148,422,487	15,521,535	-	163,944,022
Furniture & equipment	27,996,120	1,682,604	471,368	29,207,356
Total Accumulated Depreciation	186,437,796	17,716,904	471,368	203,683,332
Governmental Activities				
Capital Assets, net	$ 865,591,742	$ 176,230,116	$ 55,131,193	$ 986,690,665

Depreciation expense for the year ended June 30, 2018 was allocated to governmental activities, as follows:

Governmental Activities	
Instruction	$ 10,911,880
Instructional supervision and administratio	81,551
Instructional library, media, and technology	80,320
School site administration	577,863
Home-to-school transportation	4,138
Food services	218,174
All other pupil services	1,978,569
Centralized data processing	454,493
All other general administration	1,770,287
Plant services	1,639,629
Total depreciation expense	$ 17,716,904

NOTE 5 – INTERFUND TRANSACTIONS

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

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

	Due From Other Funds					
Due To Other Funds	**General Fund**	**Building Fund**	**Special Reserve Fund for Capital Outlay Projects**	**Non-Major Governmental Funds**	**Internal Service Fund**	**Total**
General Fund	$ -	$ 2,631,705	$ -	$ 328,883	$ 9,114,123	$ 12,074,711
Building Fund	26,182	-	11,218,737	-	23,401	11,268,320
Non-Major Governmental Funds	1,392,623	479,253	-	-	240,487	2,112,363
Internal Service Fund	236,700	-	-	17,869	-	254,569
Total Due From Other Funds	$ 1,655,505	$ 3,110,958	$ 11,218,737	$ 346,752	$ 9,378,011	$ 25,709,963

The General Fund owed the Building Fund for reimbursement of expenditures.	$ 2,631,705
The General Fund owed the Non-Major Adult Education Fund for reimbursement of expenditures.	154,340
The General Fund owed the Non-Major Child Development Fund for reimbursement of expenditures.	3,421
The General Fund owed the Non-Major Cafeteria Fund for reimbursement of expenditures.	58,802
The General Fund owed the Non-Major Capital Facilities Fund for reimbursement of expenditures.	190
The General Fund owed the Non-Major County School Facilities Fund for reimbursement of expenditures.	112,130
The General Fund owed the Internal Service Fund for reimbursement of expenditures.	9,114,123
The Building Fund owed the General Fund for reimbursement of expenditures.	26,182
The Building Fund owed the Special Reserve Fund for Capital Outlay Projects for reimbursement of expenditures.	11,218,737
The Building Fund owed the Internal Service Fund for reimbursement of expenditures.	23,401
The Non-Major Adult Education Fund owed the General Fund for reimbursement of expenditures.	76,923
The Non-Major Child Development Fund owed the General Fund for reimbursement of expenditures.	746,472
The Non-Major Cafeteria Fund owed the General Fund for reimbursement of expenditures.	209,546
The Non-Major Deferred Maintenance Fund owed the General Fund for reimbursement of expenditures.	201,082
The Non-Major Capital Facilities Fund owed the General Fund for reimbursement of expenditures.	158,600
The Non-Major Capital Facilities Fund owed the Building Fund for reimbursement of expenditures.	479,253
The Non-Major Adult Education Fund owed the Internal Service Fund for reimbursement of expenditures.	37,601
The Non-Major Child Development Fund owed the Internal Service Fund for reimbursement of expenditures.	80,338
The Non-Major Cafeteria Fund owed the Internal Service Fund for reimbursement of expenditures.	122,548
The Internal Service Fund owed the General Fund for reimbursement of expenditures.	236,700
The Internal Service Fund owed the Non-Major Child Development Fund for reimbursement of expenditures.	17,869
Total	$ 25,709,963

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

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

Interfund Transfers Out	Interfund Transfers In: General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
General Fund	$ -	$ 27,000,000	$ 352,183	$ 27,352,183
Building Fund	-	11,218,737	-	11,218,737
Non-Major Governmental Funds	201,082	-	-	201,082
Internal Service Fund	672,656	-	-	672,656
Total Interfund Transfers	$ 873,738	$ 38,218,737	$ 352,183	$ 39,444,658

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects to fund projects.	$ 27,000,000
The General Fund transferred to the Non-Major Child Development Fund for expenditures incurred.	352,183
The Building Fund transferred to the Special Reserve Fund for Capital Outlay Projects to fund projects.	11,218,737
The Non-Major Deferred Maintenance Fund transferred to the General Fund for reimbursement of work orders.	201,082
The Internal Service Fund transferred to the General Fund for reimbursement of loss due to the fire at Bolsa High School, computer	672,656
Total	$ 39,444,658

NOTE 6 – ACCRUED LIABILITIES

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Funds	District-Wide	Total Governmental Activities
Payroll	$ 17,129,336	$ 84,658	$ -	$ 1,689,884	$ 91,301	$ -	$ 18,995,179
Construction	-	6,356,661	-	-	-	-	6,356,661
Vendors payable	14,693,476	-	11,461,816	2,924,161	2,883,628	-	31,963,081
Unmatured interest	-	-	-	-	-	6,931,683	6,931,683
Total	$ 31,822,812	$ 6,441,319	$ 11,461,816	$ 4,614,045	$ 2,974,929	$ 6,931,683	$ 64,246,604

NOTE 7 – UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	$ 7,211	$ -	$ 7,211
Local sources	1,433,216	398,428	1,831,644
Total	$ 1,440,427	$ 398,428	$ 1,838,855

NOTE 8 – LONG-TERM DEBT

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

	Restated Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Balance Due In One Year
Governmental Activities					
General obligation bonds	$ 331,877,751	$ 526,157	$ 1,100,000	$ 331,303,908	$ 7,350,000
Unamortized premium	10,742,294	-	660,987	10,081,307	660,987
Unamortized discount	(224,563)	-	(7,485)	(217,078)	(7,485)
Total general obligation bonds	342,395,482	526,157	1,753,502	341,168,137	8,003,502
Capital leases	43,639	-	43,639	-	-
Compensated absences	3,472,441	20,434	-	3,492,875	-
Total OPEB liability	180,350,799	2,303,396	-	182,654,195	-
Net pension liability	486,286,907	63,264,140	-	549,551,047	-
Total	$ 1,012,549,268	$ 66,114,127	$ 1,797,141	$ 1,076,866,254	$ 8,003,502

- Payments for general obligation bonds are made in the Bond Interest and Redemption Fund.
- Payments for capital leases are made in the General Fund.
- Payments for compensated absences are paid from the fund responsible for the employee salary.

A. Measure A & Measure P General Obligation Bonds

On June 8, 2010 the voters of the District approved by more than 55% Measure A which authorizes $250 million in general obligation bonds for the modernization of district schools. Under state law, the bond money can only be used for acquiring, constructing, or improving school facilities, and furniture and equipment. Bond funds are deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure A funds. The use of Measure A funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited.

On November 8, 2016 the voters of the District approved by more than 55% Measure P which authorizes $311 million in general obligation bonds to repair/replace roofs, plumbing, and inadequate electrical systems; install air conditioning; upgrade classrooms, science labs, and access to instructional technology; provide classrooms/labs for career technology education that prepares students for college/careers; improve access for individuals with disabilities and earthquake/fire safety and campus security/lighting/cameras. Bond funds will be deposited into a special account held and monitored by the Orange County Treasurer to ensure proper fund allocation, and are subject to independent annual financial and performance audits open to public scrutiny. Also, a Citizen's Oversight Committee has been established to assure the appropriate expenditure of Measure P funds. The use of Measure P funds for teacher and administrator salaries or operating expenses unrelated to bond measure projects is strictly prohibited. As of June 30, 2018, $90 million in General Obligation Bonds have been issued.

NOTE 8 – LONG-TERM DEBT (continued)

A. Measure A & Measure P General Obligation Bonds (continued)

The outstanding bonded debt of Garden Grove Unified School District at June 30, 2018 is:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2017	Additions	Deductions	Bonds Outstanding June 30, 2018
Election 2010, Series A	September 23, 2010	August 1, 2021	2.00 - 5.00%	$ 11,900,160	$ 6,562,751	$ 526,157	$ 1,100,000	$ 5,988,908
Election 2010, Series B	September 23, 2010	August 1, 2040	5.00 - 6.13%	118,100,000	118,100,000	-	-	118,100,000
Election 2010, Series C	September 25, 2013	August 1, 2040	3.00 - 5.25%	119,995,000	117,215,000	-	-	117,215,000
Election 2016, Series 2017	March 8, 2017	August 1, 2046	3.00 - 5.00%	90,000,000	90,000,000	-	-	90,000,000
					$ 331,877,751	$ 526,157	$ 1,100,000	$ 331,303,908

B. Election of 2010, Series A & B

On September 23, 2010, Election of 2010, Series A & B of the Measure A bond authorization was issued. Series A consisted of capital appreciation bonds and current interest bonds with an initial par amount of $11,900,160 with stated interest rates of 2.00% to 5.00% and maturing through August 1, 2021, and Series B which consisted of Federally Taxable – Build America Bonds with an initial par amount of $118,100,000 with stated interest rates of 5.00% to 6.13%.

The annual requirements to amortize the Series A general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 1,100,000	$ 27,500	$ 1,127,500
2020	732,860	1,267,140	2,000,000
2021	735,750	1,514,250	2,250,000
2022	656,550	1,593,450	2,250,000
Accretion	2,763,748	(2,763,748)	-
Total	$ 5,988,908	$ 1,638,592	$ 7,627,500

NOTE 8 – LONG-TERM DEBT (continued)

B. Election of 2010, Series A & B (continued)

The annual requirements to amortize the Series B Build America Bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Subsidy	Total
2019	$ -	$ 7,123,720	$ (2,493,302)	$ 4,630,418
2020	-	7,123,720	(2,493,302)	4,630,418
2021	-	7,123,720	(2,493,302)	4,630,418
2022	-	7,123,720	(2,493,302)	4,630,418
2023	1,500,000	7,086,220	(2,480,177)	6,106,043
2024 - 2028	12,600,000	33,779,575	(11,822,851)	34,556,724
2029 - 2033	28,200,000	27,719,335	(9,701,767)	46,217,568
2034 - 2038	42,700,000	16,995,005	(5,948,252)	53,746,753
2039 - 2041	33,100,000	3,123,235	(1,093,132)	35,130,103
Total	$ 118,100,000	$ 117,198,250	$ (41,019,387)	$ 194,278,863

C. Election of 2010, Series C

On September 25, 2013, Election of 2010, Series C of the Measure A bond authorization was issued. Series C consisted of current interest bonds with an initial par amount of $119,995,000 with stated interest rates of 3.00% to 5.25% and maturing through August 1, 2040.

The annual requirements to amortize the Series C general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ -	$ 5,989,656	$ 5,989,656
2020	-	5,989,656	5,989,656
2021	-	5,989,656	5,989,656
2022	175,000	5,986,156	6,161,156
2023	1,450,000	5,946,406	7,396,406
2024 - 2028	13,230,000	28,069,781	41,299,781
2029 - 2033	21,815,000	23,859,109	45,674,109
2034 - 2038	41,295,000	16,184,100	57,479,100
2039 - 2041	39,250,000	3,243,975	42,493,975
Total	$ 117,215,000	$ 101,258,495	$ 218,473,495

NOTE 8 – LONG-TERM DEBT (continued)

D. Election of 2016, Series 2017

On March 8, 2017, Election of 2016, Series 2017 of the Measure P bond authorization was issued. Series 2017 consisted of current interest bonds with an initial par amount of $90,000,000 with stated interest rates of 3.00% to 5.00% and maturing through August 1, 2046.

The annual requirements to amortize the Series 2017 general obligation bonds payable, outstanding as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 6,250,000	$ 3,623,913	$ 9,873,913
2020	5,460,000	3,331,163	8,791,163
2021	6,090,000	3,042,413	9,132,413
2022	2,300,000	2,832,663	5,132,663
2023	2,625,000	2,709,538	5,334,538
2024 - 2028	4,400,000	12,609,313	17,009,313
2029 - 2033	6,815,000	11,570,509	18,385,509
2034 - 2038	12,305,000	9,983,509	22,288,509
2039 - 2043	20,095,000	6,888,900	26,983,900
2044 - 2047	23,660,000	1,989,400	25,649,400
Total	$ 90,000,000	$ 58,581,321	$ 148,581,321

E. Capital Leases

The District has leases with Xerox & Oce for equipment with options to purchase. The remaining capital lease obligations were paid in full by June 30, 2018.

F. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to $3,492,875. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Other Postemployment Benefits

The District's restated beginning total OPEB liability was $180,350,799 and increased by $2,303,396 during the year ended June 30, 2018. The ending total OPEB liability at June 30, 2018 was $182,654,195. See Note 10 for additional information regarding the total OPEB liability.

H. Net Pension Liability

The District's beginning net pension liability was $486,286,907 and increased by $63,264,140 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was $549,551,047. See Note 11 for additional information regarding the net pension liability.

NOTE 9 – FUND BALANCES

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

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	$ 200,000	$ -	$ -	$ 25,576	$ 225,576
Stores inventory	909,775	-	-	391,784	1,301,559
Total non-spendable	1,109,775	-	-	417,360	1,527,135
Restricted					
Educational programs	11,607,755	-	-	877,828	12,485,583
Capital projects	-	35,430,176	-	55,828,490	91,258,666
Debt service	-	-	-	17,497,408	17,497,408
All others	-	-	-	13,538,449	13,538,449
Total restricted	11,607,755	35,430,176	-	87,742,175	134,780,106
Committed					
Stabilization	32,916,549	-	-	-	32,916,549
Other commitments	-	-	-	3,020,571	3,020,571
Total committed	32,916,549	-	-	3,020,571	35,937,120
Assigned					
One-time site grants - IT projects	3,196,740	-	-	-	3,196,740
One-time site grants - textbooks	13,825,855	-	-	-	13,825,855
PERS and STRS rate increases	6,280,344	-	-	-	6,280,344
CTEIG special projects	1,781,889	-	-	-	1,781,889
School refurbishing projects	645,470	-	-	-	645,470
Site and department discretionary funds	438,410	-	-	-	438,410
Site LCFF carryover	3,520,873	-	-	-	3,520,873
Panic Button security project	252,911	-	-	-	252,911
MOFIT Chapman project	305,162	-	-	-	305,162
Other assignments	-	-	89,329,917	-	89,329,917
Total assigned	30,247,654	-	89,329,917	-	119,577,571
Unassigned					
Reserve for economic uncertainties	10,972,183	-	-	-	10,972,183
Remaining unassigned	9,377,043	-	-	997,213	10,374,256
Total unassigned	20,349,226	-	-	997,213	21,346,439
Total	$ 96,230,959	$ 35,430,176	$ 89,329,917	$ 92,177,319	$ 313,168,371

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than 2 percent of General Fund expenditures and other financing uses.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The Garden Grove Unified School District provides a single employer defined benefit other postemployment benefit (OPEB) plan as described below. Additionally, the California State Teachers' Retirement System (CalSTRS) administers a cost-sharing multiple-employer OPEB plan, the Medicare Premium Payment (MPP) Program, as described below. The District reported its total OPEB liability and its' proportionate share of the total OPEB liabilities related to the MPP Program, OPEB expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Total OPEB liability	Deferred outflows related to OPEB	Deferred inflows related to OPEB	OPEB expense
District's OPEB Plan	$ 180,170,750	$ 5,219,566	$ 184,616	$ 1,591,857
MPP Program	2,483,445	-	52	(463,907)
Total	$ 182,654,195	$ 5,219,566	$ 184,668	$ 1,127,950

1. District OPEB Plan

A. Plan Description and Benefits Provided

The Garden Grove Unified School District administers a single employer defined benefit OPEB plan. The Garden Grove Unified School District Retiree Benefit Plan (the Plan) provides retiree medical and prescription drug coverage as described below.

Employees are eligible for coverage if they retire from the District and either:

- Have reached age 55 and completed 10 or more years of consecutive District service, or
- Have reached age 50, completed 15 or more years of consecutive District service and qualify for a disability retirement.

Employees meeting the age and service requirements above are eligible for coverage and District paid retiree benefits described below until reaching age 65.

Certificated employees who retire from the District under the applicable retirement system (PERS or STRS), but who do not satisfy the age and service requirements above are also eligible to continue their District coverage, pursuant to the requirements of AB528. These retirees have access to District plan coverage for their lifetime, so long as they pay 100% of the applicable premiums.

No other retirees are permitted to continue coverage under the District's plans after age 65.

District plans available: The District offers three basic plans for its employees and retirees: a self-funded PPO/Rx plan, a self-funded EPO/Rx plan and a fully insured HMO plan through United Healthcare. Supplemental plans for retirees eligible for Medicare are also provided.

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

1. District OPEB Plan (continued)

A. Plan Description and Benefits Provided (continued)

Benefits paid by the District: Retirees under age 65 who satisfy the age and service requirements above are entitled to subsidized coverage under the medical/prescription drug plans provided by the District. Qualifying retirees contribute $450 per year for single coverage or $900 per year for retiree and spouse.

The District pays the remaining costs for retiree coverage until the retiree reaches age 65.

B. Contributions

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

C. Plan Membership

Membership of the Plan consisted of the following:

	Number of participants
Inactive employees receiving benefits	267
Inactive employees entitled to but not receiving benefits*	-
Participating active employees	3,189
Total number of participants**	3,456

*Information not provided
**As of the June 30, 2016 valuation date

D. Total OPEB Liability

The Garden Grove Unified School District's total OPEB liability of $180,170,850 was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2016.

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

1. District OPEB Plan (continued)

E. Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Economic assumptions:

Inflation	2.75%
Salary increases	3.25%
Investment rate of return	3.53%
Healthcare cost trend rates	7.50%

Non-economic assumptions:

Mortality:

Certificated	CalSTRS Mortality Table
Classified	CalPERS Active Mortality for Miscellaneous Employees Table

Retirement rates:

Date hired by the District	CalPERS	CalSTRS
Hired prior to 1/1/2013	2% at 55	2% at 60
Hired on or after 1/1/2013 (prior member, “Classic”)	2% at 55	2% at 60
Hired on or after 1/1/2013 (new member, “PEPRA”)	2% at 62	2% at 62

The actuarial assumptions used in the June 30, 2016 valuation were based on 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements.

The District is currently financing its OPEB liability on a pay-as-you-go basis. The discount rate used in this valuation is based on the Bond Buyer 20 Year High Grade Index. As of the beginning and end of the Measurement Period, this index requires use of discount rates of 2.85% as of June 30, 2016 and 3.53% as of June 30, 2017. The actuary assumed contributions would be sufficient to fully fund the obligation over a period not to exceed thirty years.

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

1. District OPEB Plan (continued)

F. Changes in Total OPEB Liability

	June 30, 2018
Total OPEB Liability	
Service Cost	$ 11,840,324
Interest on total OPEB liability	5,341,080
Changes of assumptions	(10,554,598)
Benefits payments	(4,044,120)
Net change in total OPEB liability	2,582,686
Total OPEB liability - beginning	177,588,064
Total OPEB liability - ending	$ 180,170,750
Covered payroll	$ 299,047,534
District's total OPEB liability as a percentage of covered payroll	60.2%

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

The following presents the total OPEB liability of the Garden Grove Unified School District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13 percent) or one percentage point higher (4.13 percent) than the current discount rate:

	1% Decrease (2.13%)	Valuation Discount Rate (3.13%)	1% Increase (4.13%)
Total OPEB liability	$ 197,758,758	$ 180,170,750	$ 163,821,086

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

1. District OPEB Plan (continued)

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

The following presents the total OPEB liability of the Garden Grove Unified School District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current healthcare cost trend rate:

	1% Decrease (6.50%)	Valuation Trend Rate (7.50%)	1% Increase (8.50%)
Total OPEB liability	$ 156,814,516	$ 180,170,750	$ 207,947,887

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

For the fiscal year ended June 30, 2018, the Garden Grove Unified School District recognized OPEB expense of $1,591,857. At June 30, 2018, the Garden Grove Unified School District reported deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 184,616
District contributions subsequent to the measurement date	5,219,566	-
	$ 5,219,566	$ 184,616

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

1. District OPEB Plan (continued)

I. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)

The $5,219,566 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	$ 16,925
2020	16,925
2021	16,925
2022	16,925
2023	16,925
2024	99,991
	$ 184,616

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

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

2. MPP Program

A. Plan Description and Contribution Information

The California State Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. The postemployment benefit plan component is the Medicare Premium Payment (MPP) Program. The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF). The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the STRP DB Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A.

The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis. Medicare Part A premium rates for fiscal year 2016 -17 were as follows:

Medicare Part A Premium Rates[1]	
July 1, 2016 to December 31, 2016	$411
January 1, 2017 to June 30, 2017	$413

[1] Individuals with 30-39 quarters of Medicare covered employment pay a reduced monthly premium rate, which was $226 and $227 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively.

Part A and B late enrollment penalties are generally 10 percent of the respective monthly premiums rates; however, the fees charged to individual participants may be higher based on certain income thresholds.

Based on the published premium rates during FY 2016–17, Part A late enrollment surcharges were $41.10 and $41.30 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively. Part B late enrollment surcharges were $12.18 and $13.40 for the period of July 1, 2016 to December 31, 2016 and January 1, 2017 to June 30, 2017, respectively.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program. The number of retired members who will participate in the program in the future is unknown because eligibility cannot be pre-determined.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly employer contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program. Total District Medicare Premiums and Surcharges paid to the MPP Program for fiscal year 2016-17 were $170,770.

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

2. MPP Program (continued)

B. Net OPEB Liability

The Garden Grove Unified School District's net MPP Program OPEB liability of $2,483,445 was measured as of June 30, 2017 by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total OPEB liability to June 30, 2017. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the MPP Program relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.590 percent.

C. Actuarial Assumptions and Other Inputs

The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

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

[1] The assumed increases in the Medicare Part A and Part B Cost Trend Rates vary by year, however; the increases are approximately equivalent to a 3.7 percent and 4.1 percent increase each year for Medicare Part A and Part B, respectively.

In addition, assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program.

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members.

The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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

2. MPP Program (continued)

C. Actuarial Assumptions and Other Inputs (continued)

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

Non-economic assumptions:

Mortality:

Pre-retirement	RP-2014 Employee Mortality, without projection
Post-retirement	RP-2014 Healthy Annuitant Mortality, without projection

Retirement rates:

Age	Percent Retiring*
55-59	10.0%
60	25.0%
61	50.0%
62	20.0%
63	30.0%
64	80.0%
65	100.0%

*Of those having met eligibility for District-paid benefits. The percentage refers to the probability that an active employee reaching the stated age will retire within the following year.

The actuarial assumptions used in the June 30, 2017 valuation were based on a review of plan experience during the period July 1, 2016 to June 30, 2017.

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

The following presents the net OPEB liability of the Garden Grove Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current discount rate:

	1% Decrease (2.58%)	Valuation Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB liability	$ 2,749,346	$ 2,483,445	$ 2,224,799

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

2. MPP Program (continued)

E. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Garden Grove Unified School District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (2.70 percent) or one percentage point higher (4.70 percent) than the current healthcare cost trend rate:

	1% Decrease (2.70%)	Valuation Trend Rate (3.70%)	1% Increase (4.70%)
Net OPEB liability	$ 2,244,172	$ 2,483,445	$ 2,720,327

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

For the fiscal year ended June 30, 2018, the Garden Grove Unified School District recognized OPEB expense of $(149,210). At June 30, 2018, the Garden Grove Unified School District reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ 52
	$ 52

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

2. MPP Program (continued)

F. OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB (continued)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	$ 13
2020	13
2021	13
2022	13
	$ 52

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

NOTE 11 – PENSION PLANS

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

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	$ 420,405,689	$ 125,711,610	$ 26,494,176	$ 43,646,842
PERS Pension	129,145,358	45,905,117	1,520,527	19,739,279
Total	$ 549,551,047	$ 171,616,727	$ 28,014,703	$ 63,386,121

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

Plan Description

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

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

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

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

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 9.205% of their salary for fiscal year 2018, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were $34,937,447 for the year ended June 30, 2018.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately $20,225,322 to CalSTRS.

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

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

District's proportionate share of the net pension liability	$	420,405,689
State's proportionate share of the net pension liability associated with the District		248,710,480
Total	$	669,116,169

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.455 percent, which was a decrease of 0.012 percent from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of $43,646,842. In addition, the District recognized pension expense and revenue of $7,148,275 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ -	$ 11,196,575
Differences between expected and actual experience	1,554,701	7,332,552
Changes in assumptions	77,885,063	-
Changes in proportion and differences between District contributions and proportionate share of contributions	11,334,399	7,965,049
District contributions subsequent to the measurement date	34,937,447	-
	$ 125,711,610	$ 26,494,176

The $34,937,447 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 15,898,875	$ 12,274,966
2020	15,898,875	(4,086,557)
2021	15,898,875	1,952,911
2022	15,898,872	12,922,760
2023	13,938,707	2,102,587
2024	13,239,959	1,327,509
	$ 90,774,163	$ 26,494,176

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

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

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	100%	

*20-year geometric average

NOTE 11 – PENSION PLANS (continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	$ 617,289,019	$ 420,405,689	$ 260,621,524

Pension Plan Fiduciary Net Position

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

NOTE 11 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Benefits Provided

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

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2018 was 15.531% of annual payroll. Contributions to the plan from the District were $11,532,808 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $129,145,358 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.541 percent, which was a decrease of 0.007 percent from its proportion measured as of June 30, 2016.

NOTE 11 – PENSION PLANS (continued)

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

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

For the year ended June 30, 2018, the District recognized pension expense of $19,739,279. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on plan investments	$ 4,467,546	$ -
Differences between expected and actual experience	4,626,746	-
Changes in assumptions	18,863,711	1,520,527
Changes in proportion and differences between District contributions and proportionate share of contributions	6,414,306	-
District contributions subsequent to the measurement date	11,532,808	-
	$ 45,905,117	$ 1,520,527

The $11,532,808 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources	Deferred Inflows of Resources
2019	$ 11,878,875	$ 1,520,527
2020	14,736,243	-
2021	10,203,618	-
2022	(2,446,427)	-
	$ 34,372,309	$ 1,520,527

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions

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

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

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

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

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

NOTE 11 – PENSION PLANS (continued)

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

Actuarial Assumptions (continued)

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

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

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

Discount Rate

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

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net pension liability	$ 190,014,207	$ 129,145,358	$ 78,649,551

NOTE 11 – PENSION PLANS (continued)

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Construction Commitments

As of June 30, 2018, the District had commitments with respect to unfinished capital projects of $26,356,073.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in a joint powers authority (JPA), the Southern California Schools Regional Liability Excess Fund (ReLiEF). The relationship between the District and the JPA is such that the JPA is not component unit of the District for financial reporting purposes. ReLiEF arranges for and provides self-funded excess liability and property coverage for approximately seventy public educational agencies with combined average daily attendance of 1,107,091 and property values of approximately $27.46 billion.

ReLiEF arranges for and provides property and liability insurance for approximately seventy members consisting of both public educational agencies and other JPA's. ReLiEF is governed by a board consisting of a representative from each member. The board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 13, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year.

The District retains the risk of loss under the California Education Code Section 39602 for general liability up to $50,000, commercial property up to $25,000, worker's compensation claims up to $500,000 and employee medical benefit claims. The District has obtained insurance coverage that will cover claims within the following ranges to supplement its risk retention program:

Worker's compensation	$500,000 per claim up to	$25,000,000
Property claims	$25,000 per claim up to	$250,000,000
General liability	$50,000 per claim up to	$25,000,000

Related claims paid for the year ended June 30, 2018 were $2,754,437 for worker's compensation claims, $46,626,949 for medical and dental claims, and $7,150,883 for catastrophic claims, bringing total claim payments to $56,532,269. These amounts have been recorded as self-insured losses in the Self-Insurance Internal Service Fund. The District has adjusted the outstanding claims payable based on information provided by their claim administrator relating to claims incurred but not reported (IBNR) to bring the total liability for insurance claims at June 30, 2018 to $15,282,809.

Claims payable and other liabilities in fiscal year 2018 were as follows:

	General Liability	Workers' Compensation	Health & Welfare	Total
Liability Balance, July 01, 2017	$ 473,423	$ 6,955,053	$ 8,348,080	$ 15,776,556
Claims & changes in estimates	-	2,596,570	46,291,069	48,887,639
Claims payments	-	(2,754,437)	(46,626,949)	(49,381,386)
Liability Balance, June 30, 2018	$ 473,423	$ 6,797,186	$ 8,012,200	$ 15,282,809
Assets available to pay claims at June 30, 2018				$ 178,889,395

NOTE 15 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 11. At June 30, 2018, total deferred outflows related to pensions was $171,616,727 and total deferred inflows related to pensions was $28,014,703.

B. Other Postemployment Benefits

Pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* the District recognized deferred outflows of resources related to other postemployment benefits and deferred inflows of resources related to other postemployment benefits in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2018, total deferred outflows related to other postemployment benefits was $5,219,566 and total deferred inflows related to other postemployment benefits was $184,668.

NOTE 16 – RESTATEMENT OF FUND BALANCE/NET POSITION

The beginning fund balance of the Cafeteria Fund has been restated in order to properly state the unearned revenue balance.

Additionally, the beginning net position of Governmental Activities and the Internal Service Fund has been restated in order to record the District's total OPEB liability, deferred outflows of resources related to OPEB and deferred inflows of resources related to OPEB in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The effect on beginning fund balance/net position is presented as follows:

	Cafeteria Fund
Fund Balance - Beginning, as Previously Reported	$ 13,785,686
Restatement	997,213
Fund Balance - Beginning, as Restated	$ 14,782,899

	Internal Service Fund	Governmental Activities
Net Position - Beginning, as Previously Reported	$ 59,107,886	$ 584,873,009
Restatement	(75,120,225)	(74,123,012)
Net Position - Beginning, as Restated	$ (16,012,339)	$ 510,749,997

REQUIRED SUPPLEMENTARY INFORMATION

GARDEN GROVE UNIFIED SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances -
	Original	Final	(Budgetary Basis)	Final to Actual
REVENUES				
LCFF sources	$ 425,806,340	$ 425,036,957	$ 425,036,957	$ -
Federal sources	35,050,260	36,717,707	30,182,062	(6,535,645)
Other state sources	54,583,816	78,147,032	76,846,767	(1,300,265)
Other local sources	4,772,695	10,619,908	9,350,540	(1,269,368)
Total Revenues	520,213,111	550,521,604	541,416,326	(9,105,278)
EXPENDITURES				
Certificated salaries	238,621,742	253,432,612	242,747,165	10,685,447
Classified salaries	85,074,280	92,540,207	85,135,849	7,404,358
Employee benefits	113,222,885	133,538,611	125,759,603	7,779,008
Books and supplies	60,784,513	45,461,664	15,443,115	30,018,549
Services and other operating expenditures	48,063,113	54,878,170	37,617,571	17,260,599
Capital outlay	6,077,602	18,132,842	8,199,716	9,933,126
Other outgo				
Excluding transfers of indirect costs	7,676,522	8,167,120	7,392,129	774,991
Transfers of indirect costs	(1,289,356)	(1,284,282)	(1,038,197)	(246,085)
Total Expenditures	558,231,301	604,866,944	521,256,951	83,609,993
Excess (Deficiency) of Revenues				
Over Expenditures	(38,018,190)	(54,345,340)	20,159,375	74,504,715
Other Financing Sources (Uses)				
Transfers in	-	873,738	873,738	-
Transfers out	(27,356,819)	(27,364,453)	(27,352,183)	12,270
Net Financing Sources (Uses)	(27,356,819)	(26,490,715)	(26,478,445)	12,270
NET CHANGE IN FUND BALANCE	(65,375,009)	(80,836,055)	(6,319,070)	74,516,985
Fund Balance - Beginning	92,493,706	102,550,029	102,550,029	-
Fund Balance - Ending	$ 27,118,697	$ 21,713,974	$ 96,230,959	$ 74,516,985

See accompanying note to required supplementary information.

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – DISTRICT OPEB PLAN
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018
Total OPEB Liability	
Service Cost	$ 11,840,324
Interest on total OPEB liability	5,341,080
Changes of assumptions	(10,554,598)
Benefits payments	(4,044,120)
Net change in total OPEB liability	2,582,686
Total OPEB liability - beginning	177,588,064
Total OPEB liability - ending	$ 180,170,750
Covered payroll	$ 299,047,534
District's total OPEB liability as a percentage of covered payroll	60.2%

See accompanying note to required supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS – MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018
District's proportion of the collective net MPP Program OPEB liability	0.590%
District's proportionate share of the collective net MPP Program OPEB liability	$ 2,483,445
District's covered payroll	$ 242,116,771
District's proportionate share of the collective net MPP Program OPEB liability as a percentage of its covered payroll	0.830%
MPP Program fiduciary net position as a percentage of the total OPEB liability	0.010%

See accompanying note to required supplementary information.

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

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.455%	0.467%	0.461%	0.442%
District's proportionate share of the net pension liability	$ 420,405,689	$ 378,077,780	$ 310,648,255	$ 258,554,380
State's proportionate share of the net pension liability associated with the District	248,710,480	215,264,625	164,298,242	156,126,298
Total	$ 669,116,169	$ 593,342,405	$ 474,946,497	$ 414,680,678
District's covered payroll	$ 244,605,588	$ 236,302,007	$ 212,147,915	$ 204,197,952
District's proportionate share of the net pension liability as a percentage of its covered payroll	171.9%	160.0%	146.4%	126.6%
Plan fiduciary net position as a percentage of the total pension liability	69.5%	70.0%	74.0%	76.5%

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

See accompanying note to required supplementary information.

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

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.541%	0.548%	0.532%	0.508%
District's proportionate share of the net pension liability	$ 129,145,358	$ 108,209,127	$ 78,388,711	$ 57,680,951
District's covered payroll	$ 69,365,301	$ 65,949,600	$ 59,085,462	$ 53,346,749
District's proportionate share of the net pension liability as a percentage of its covered payroll	186.2%	164.1%	132.7%	108.1%
Plan fiduciary net position as a percentage of the total pension liability	71.9%	73.9%	79.4%	83.4%

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

See accompanying note to required supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 34,937,447	$ 30,771,385	$ 25,355,206	$ 18,838,736
Contributions in relation to the contractually required contribution*	(34,937,447)	(30,771,385)	(25,355,206)	(18,838,736)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 242,116,771	$ 244,605,588	$ 236,302,007	$ 212,147,915
Contributions as a percentage of covered payroll	14.43%	12.58%	10.73%	8.88%

*Amounts do not include on-behalf contributions

See accompanying note to required supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 11,532,808	$ 9,633,454	$ 7,813,047	$ 6,954,949
Contributions in relation to the contractually required contribution	(11,532,808)	(9,633,454)	(7,813,047)	(6,954,949)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 74,256,687	$ 69,365,301	$ 65,949,600	$ 59,085,462
Contributions as a percentage of covered payroll	15.53%	13.89%	11.85%	11.77%

See accompanying note to required supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Changes in Total OPEB Liability and Related Ratios

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

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

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

Changes in Benefit Terms

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

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of District Contributions

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Employee benefits	$ 133,538,611	$ 125,759,603	$ (7,779,008)
Other outgo			
Transfers of indirect costs	$ (1,284,282)	$ (1,038,197)	$ 246,085

SUPPLEMENTARY INFORMATION

Garden Grove Unified School District is located in Orange County, California. The District was established on July 1, 1965 and is comprised of an area of approximately 28 square miles. There were no changes in the boundaries of the District during the current year. The District is currently operating 45 elementary schools, 10 intermediate schools, 7 high schools, 1 continuation high school, 2 special education schools, 1 adult education/career technical education center, and 1 preschool family campus.

GOVERNING BOARD

Member	Office	Term Expires
Bob Harden	President	November, 2018
Lan Quoc Nguyen	Vice President	November, 2018
Walter Muneton	Member	November, 2020
Dina L. Nguyen	Member	November, 2020
Teri Rocco	Member	November, 2020

DISTRICT ADMINISTRATORS

Dr. Gabriela Mafi
Superintendent

Mr. Rick Nakano
Assistant Superintendent, Business Services

Ms. Sara Wescott
Assistant Superintendent, Elementary Education

Ms. Kelly McAmis
Assistant Superintendent, Secondary Education

Ms. Joli Armitage
Assistant Superintendent, Personnel Services

Ms. Valerie Shedd
Assistant Superintendent, Special Education and Student Services

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 13,459,508
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	44,867
Title II, Part A, Teacher Quality	84.367	14341	2,624,618
Title III			
Title III, English Learner Student Program	84.365	14346	2,032,595
Title III, Immigrant Education Program	84.365	15146	186,999
Subtotal Title III			2,219,594
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	469,994
Adult Education			
Adult Education: Adult Basic Education & ESL	84.002A	14508	756,598
Adult Education: Adult Secondary Education	84.002	13978	65,052
Adult Education: English Literacy and Civics Education	84.002A	14109	151,854
Subtotal Adult Education			973,504
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	7,510,062
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	21,555
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	495,191
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	152,877
IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.027A	13682	503,918
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	2,232
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	21,097
Subtotal Special Education Cluster			8,706,932
IDEA Early Intervention Grants, Part C	84.181	23761	110,635
Vocational Programs: Voc & Appl Tech Secondary II C, Sec 131 (Carl Perkins Act)	84.048	14893	381,323
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	115,848
Total U. S. Department of Education			29,106,823
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	3,281,892
National School Lunch Program	10.555	13391	13,204,088
Meal Supplements	10.555	*	598,911
USDA Commodities	10.555	*	1,636,454
Summer Food Service Program for Children	10.559	13004	206,417
Subtotal Child Nutrition Cluster			18,927,762
CACFP Claims - Centers and Family Day Care	10.558	13393	141,164
Fresh Fruit and Vegetable Program	10.582	14968	269,773
Total U. S. Department of Agriculture			19,338,699
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through California Department of Education:			
Now is the Time (NITT) Advancing Wellness & Resilience in Education	93.243	15289	587,478
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	997,752
Total U. S. Department of Health & Human Services			1,585,230
Total Federal Expenditures			$ 50,030,752

* - Pass-Through Entity Identifying Number not available or not applicable

See accompanying note to supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2018

	Second Period Report #B9677D99	Annual Report #16B9FBFC
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	11,624.03	11,654.71
Extended Year Special Education	21.75	21.75
Special Education - Nonpublic Schools	7.90	7.38
Extended Year Special Education - Nonpublic Schools	0.92	0.92
Total TK/K through Third	11,654.60	11,684.76
Fourth through Sixth		
Regular ADA	9,617.17	9,625.62
Extended Year Special Education	18.35	18.35
Special Education - Nonpublic Schools	6.39	6.77
Extended Year Special Education - Nonpublic Schools	0.54	0.54
Total Fourth through Sixth	9,642.45	9,651.28
Seventh through Eighth		
Regular ADA	6,656.38	6,655.35
Extended Year Special Education	10.47	10.47
Special Education - Nonpublic Schools	1.85	1.73
Extended Year Special Education - Nonpublic Schools	0.17	0.17
Total Seventh through Eighth	6,668.87	6,667.72
Ninth through Twelfth		
Regular ADA	13,675.13	13,632.53
Extended Year Special Education	39.05	39.05
Special Education - Nonpublic Schools	19.79	18.01
Extended Year Special Education - Nonpublic Schools	2.50	2.50
Total Ninth through Twelfth	13,736.47	13,692.09
TOTAL SCHOOL DISTRICT	41,702.39	41,695.85

See accompanying note to supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	Minutes Requirement	2017-18 Actual Minutes	Number of Days	Status
Kindergarten	36,000	54,890	180	Complied
Grade 1	50,400	54,890	180	Complied
Grade 2	50,400	54,890	180	Complied
Grade 3	50,400	54,890	180	Complied
Grade 4	54,000	54,890	180	Complied
Grade 5	54,000	54,890	180	Complied
Grade 6	54,000	54,890	180	Complied
Grade 7	54,000	55,660	180	Complied
Grade 8	54,000	55,660	180	Complied
Grade 9	64,800	64,848	180	Complied
Grade 10	64,800	64,848	180	Complied
Grade 11	64,800	64,848	180	Complied
Grade 12	64,800	64,848	180	Complied

See accompanying note to supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	2019 (Budget)	2018	2017	2016
General Fund - Budgetary Basis				
Revenues And Other Financing Sources	$ 559,733,699	$ 542,290,064	$ 540,261,688	$ 535,127,476
Expenditures And Other Financing Uses	626,666,836	548,609,134	535,613,943	533,291,813
Net change in Fund Balance	$ (66,933,137)	$ (6,319,070)	$ 4,647,745	$ 1,835,663
Ending Fund Balance	$ 29,297,822	$ 96,230,959	$ 102,550,029	$ 97,902,284
Available Reserves*	$ 12,577,194	$ 20,349,226	$ 29,967,520	$ 42,241,646
Available Reserves As A Percentage Of Outgo	2.01%	3.71%	5.59%	7.92%
Long-term Debt	$ 1,068,862,752	$ 1,076,866,254	$ 933,569,591	$ 731,734,028
Average Daily Attendance At P-2	40,189	41,702	42,854	43,838

The General Fund balance has decreased by $1,671,325 over the past two years. The fiscal year 2018-19 budget projects a decrease of $66,933,137. For a District this size, the State recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-19 fiscal year. Total long-term obligations have increased by $345,132,226 over the past two years.

Average daily attendance has decreased by 2,136 ADA over the past two years. Additional decline of 1,513 ADA is anticipated during the 2018-19 fiscal year.

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

See accompanying note to supplementary information.

		Cafeteria Fund
June 30, 2018, annual financial and budget report fund balance	$	13,955,809
Adjustments and reclassifications:		
Decrease in unearned revenue		997,213
Net adjustments and reclassifications		997,213
June 30, 2018, audited financial statement fund balance	$	14,953,022

See accompanying note to supplementary information.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
ASSETS								
Cash and investments	$ 368,070	$ 578,599	$ 13,489,574	$ 3,305,673	$ 30,798,662	$ 27,054,330	$ 17,460,486	$ 93,055,394
Accounts receivable	525,171	1,140,833	3,485,350	4,695	279,253	36,001	36,922	5,508,225
Due from other funds	154,340	21,290	58,802	-	190	112,130	-	346,752
Stores inventory	-	-	391,784	-	-	-	-	391,784
Total Assets	$ 1,047,581	$ 1,740,722	$ 17,425,510	$ 3,310,368	$ 31,078,105	$ 27,202,461	$ 17,497,408	$ 99,302,155
LIABILITIES								
Accrued liabilities	$ 157,715	$ 486,019	$ 2,067,373	$ 88,715	$ 431,387	$ 1,382,836	$ -	$ 4,614,045
Due to other funds	114,524	826,810	332,094	201,082	637,853	-	-	2,112,363
Unearned revenue	-	325,407	73,021	-	-	-	-	398,428
Total Liabilities	272,239	1,638,236	2,472,488	289,797	1,069,240	1,382,836	-	7,124,836
FUND BALANCES								
Non-spendable	-	-	417,360	-	-	-	-	417,360
Restricted	775,342	102,486	13,538,449	-	30,008,865	25,819,625	17,497,408	87,742,175
Committed	-	-	-	3,020,571	-	-	-	3,020,571
Unassigned	-	-	997,213	-	-	-	-	997,213
Total Fund Balances	775,342	102,486	14,953,022	3,020,571	30,008,865	25,819,625	17,497,408	92,177,319
Total Liabilities and Fund Balance	$ 1,047,581	$ 1,740,722	$ 17,425,510	$ 3,310,368	$ 31,078,105	$ 27,202,461	$ 17,497,408	$ 99,302,155

See accompanying note to supplementary information.

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

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds
REVENUES								
LCFF sources	$ 92,548	$ -	$ -	$ 4,000,000	$ -	$ -	$ -	$ 4,092,548
Federal sources	973,504	-	19,338,698	-	-	-	2,325,004	22,637,206
Other state sources	1,857,895	5,359,678	1,309,987	-	-	-	159,574	8,687,134
Other local sources	618,442	532,815	2,813,622	32,788	9,392,922	439,953	20,479,769	34,310,311
Total Revenues	3,542,389	5,892,493	23,462,307	4,032,788	9,392,922	439,953	22,964,347	69,727,199
EXPENDITURES								
Current								
Instruction	1,733,327	3,647,749	-	-	-	-	-	5,381,076
Instruction-related services								
Instructional supervision and administration	31,276	580,904	-	-	-	-	-	612,180
Instructional library, media, and technology	69,742	14,112	-	-	-	-	-	83,854
School site administration	1,074,753	447,853	-	-	-	-	-	1,522,606
Pupil services								
Food services	-	-	22,523,734	-	-	-	-	22,523,734
All other pupil services	147,119	767,267	-	-	-	-	-	914,386
General administration								
All other general administration	111,725	159,102	767,370	-	59,454	-	-	1,097,651
Plant services	246,384	341,778	-	547,763	114,411	-	-	1,250,336
Facilities acquisition and maintenance	-	247,948	1,080	3,727,223	5,123,359	21,921,309	-	31,020,919
Debt service								
Principal	-	-	-	-	-	-	1,100,000	1,100,000
Interest and other	-	-	-	-	-	-	16,426,765	16,426,765
Total Expenditures	3,414,326	6,206,713	23,292,184	4,274,986	5,297,224	21,921,309	17,526,765	81,933,507
Excess (Deficiency) of Revenues Over Expenditures	128,063	(314,220)	170,123	(242,198)	4,095,698	(21,481,356)	5,437,582	(12,206,308)
Other Financing Sources (Uses)								
Transfers in	-	352,183	-	-	-	-	-	352,183
Transfers out	-	-	-	(201,082)	-	-	-	(201,082)
Net Financing Sources (Uses)	-	352,183	-	(201,082)	-	-	-	151,101
NET CHANGE IN FUND BALANCE	128,063	37,963	170,123	(443,280)	4,095,698	(21,481,356)	5,437,582	(12,055,207)
Fund Balance - Beginning, as Restated	647,279	64,523	14,782,899	3,463,851	25,913,167	47,300,981	12,059,826	104,232,526
Fund Balance - Ending	$ 775,342	$ 102,486	$ 14,953,022	$ 3,020,571	$ 30,008,865	$ 25,819,625	$ 17,497,408	$ 92,177,319

See accompanying note to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

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 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 following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2018 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2018.

The District has not elected to use the 10 percent de minimis indirect cost rate.

	CFDA Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		$ 52,819,268
Medi-Cal Billing Option	93.778	(463,512)
Build America Bonds Interest Subsidy	*	(2,325,004)
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		$50,030,752

*CFDA Number not applicable

Schedule of Average Daily Attendance (ADA)

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

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code Sections* 46200 through 46208. During the year ended June 30, 2018, the District participated in the Longer Day incentive funding program. As of June 30, 2018, the District had not yet met its target funding.

Schedule of Financial Trends and Analysis

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

Schedule of Annual Financial and Budget Report with Audited Financial Statements

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

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

OTHER INDEPENDENT AUDITORS' REPORTS

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

Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, 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 Garden Grove Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Garden Grove Unified School District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Christy White Associates

San Diego, California
December 14, 2018

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

Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on Compliance for Each Major Federal Program

We have audited Garden Grove Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Garden Grove Unified School District's major federal programs for the year ended June 30, 2018. Garden Grove Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Garden Grove Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidancerequire 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 Garden Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Christy White Associates

San Diego, California
December 14, 2018

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REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Governing Board
Garden Grove Unified School District
Garden Grove, California

Report on State Compliance

We have audited Garden Grove Unified School District's compliance with the types of compliance requirements described in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Garden Grove Unified School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Garden Grove Unified School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Garden Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Garden Grove Unified School District's compliance with those requirements.

Opinion on State Compliance

In our opinion, Garden Grove Unified School District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Garden Grove Unified School District's compliance with the state laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

(continued on next page)

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

Christy White Associates

San Diego, California
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Part A, Basic Grants Low-Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,500,923
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for state programs:	Unmodified

FIVE DIGIT CODE	AB 3627 FINDING TYPE
20000	Inventory of Equipment
30000	Internal Control

There were no financial statement findings for the year ended June 30, 2018.

FIVE DIGIT CODE	**AB 3627 FINDING TYPE**
50000	Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2018.

FIVE DIGIT CODE	AB 3627 FINDING TYPE
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2018.

GARDEN GROVE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings for the year ended June 30, 2017.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Garden Grove Unified School District (the "District") in connection with the issuance of $__________ aggregate principal amount of Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019A (Tax-Exempt) and $__________ aggregate principal amount of Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019B (Federally Taxable) (collectively, the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on September 17, 2019 (the "Resolution"). The District covenants and agrees as follows:

Section 1. <u>Purpose of the Disclosure Certificate</u>. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. <u>Definitions</u>. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds 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 the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), 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 Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) hereof.

"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 <u>http://emma.msrb.org</u>.

"Official Statement" shall mean the Official Statement, dated __________, 2019 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

"Participating Underwriter" shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which due date shall be March 31 of each year, so long as the District's fiscal year ends on June 30), commencing with the report for the 2018-19 Fiscal Year (which is due not later than March 31, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, 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 Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), 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:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB 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 final 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 statements of the District, the Annual Report shall also include the following:

(i) The average daily attendance in District schools on an aggregate basis for the preceding fiscal year;

(ii) Pension plan contributions made by the District for the preceding fiscal year;

(iii) The adopted budget of the District for the then-current fiscal year.

(iv) Assessed value of taxable property in the District for the then-current fiscal year as shown on the most recent equalized assessment role.

(v) If the County of Orange (the "County") no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections, and delinquencies for the District for the most recently completed fiscal year.

(vi) Top ten property owners in the District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value, if provided by the County.

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 Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of credit or liquidity providers or their failure to perform;

(v) 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);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes;

(ix) bankruptcy, insolvency, receivership or similar event of the District; or

(x) 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.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the 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 District, 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 District.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) unless described in paragraph 5(a)(v), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or

(viii) 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 Bond holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) 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 subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), 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 redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in 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 Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, 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 the District with respect to the Bonds, 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 issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: __________, 2019

GARDEN GROVE UNIFIED SCHOOL DISTRICT

By: ____________________________________

ACCEPTED AND AGREED TO:

FIELDMAN, ROLAPP & ASSOCIATES, INC. DOING BUSINESS AS APPLIED BEST PRACTICES, as Dissemination Agent

By: ____________________________________
Authorized Signatory

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	**GARDEN GROVE UNIFIED SCHOOL DISTRICT**
Name of Issue:	Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019A (Tax-Exempt) and Garden Grove Unified School District (Orange County, California) General Obligation Refunding Bonds, Series 2019B (Federally Taxable)
Date of Issuance:	__________, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated __________, 2019. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

GARDEN GROVE UNIFIED SCHOOL DISTRICT

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APPENDIX D

CITY OF GARDEN GROVE AND COUNTY OF ORANGE
GENERAL AND ECONOMIC DATA

The following information concerning the City of Garden Grove (the "City"), the County of Orange (the "County") and the State of California (the "State") are presented as general background information. The 2019 Bonds are not an obligation of the City, the County or the State and the taxing the power of the City, the County and the State are not pledged to the payment of the 2019 Bonds.

The District has not independently verified the information set forth in this Appendix D and while this information is believed to be reliable, it is not guaranteed as to accuracy by the District.

General – Garden Grove

The City encompasses approximately 17.95 square miles and is located in northern Orange County, located 34 miles south of the City of Los Angeles. The City was incorporated in 1956 and operates in the council-manager form of government. Each of the six (6) City Council members is elected in an at-large election for alternating four year terms. Approximately 93% of the assessed value of the City is located within the boundaries of the District.

The City provides police and service and has a host of the annual Garden Grove Strawberry Festival. The City is located within a short commute to major employers in such fields as aerospace/industrial manufacturing and various resorts.

Population

The following table offers population figures for the City, the County and the State for January 1, 2015 through January 1, 2019.

Area	*2015*	*2016*	*2017*	*2018*	*2019*
Garden Grove	175,028	175,283	175,422	174,951	175,155
Orange County	3,155,578	3,174,945	3,199,509	3,213,275	3,222,498
State of California	38,952,462	39,241,803	39,504,609	39,740,508	39,927,315

Source: State of California, Department of Finance *E-4 Population Estimates for Cities, Counties and State, 2011-2019, with 2010 Benchmark*, Sacramento, California, May 2019.

Construction Activity

The following table shows building permit valuations and new housing units in the City for 2014 through 2018.

CITY OF GARDEN GROVE
Building Permit Valuation and New Housing Units

	2014	*2015*	*2016*	*2017*	*2018*
Residential					
Single Family	$ 6,153,800	$ 6,322,000	$ 5,747,000	$ 2,638,620	$ 17,179,215
Multi-Family	0	41,180,000	850,000	0	8,895,300
Alteration/Additions	9,014,364	12,037,903	14,082,057	15,816,287	12,136,228
Total	$ 15,168,164	$ 59,539,903	$ 20,679,057	$ 18,454,907	$ 38,210,743
Non-Residential					
New Commercial	$ 38,262,400	$ 1,832,471	$ 1,300,000	$ 676,327	$ 1,560,000
New Industry	0	0	0	0	0
Other(1)	29,808,303	1,114,241	6,685,542	3,112,285	3,410,494
Alteration/Additions	20,637,469	7,451,072	13,154,656	13,401,582	50,483,528
Total	$ 88,708,172	$ 10,397,784	$ 21,140,198	$ 17,190,194	$ 55,454,022
Total All Industry(2)	$ 103,876,336	$ 69,937,687	$ 41,819,255	$ 35,645,101	$ 93,664,765
New Housing Units					
Single Family Units	30	22	17	19	157
Multi-Family Units	0	243	4	0	51
Total	30	58	21	19	208

(1) Includes churches and religious building, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.
(2) May not add up due to rounding.
Source: Construction Industry Research Board.

Employment

The following table sets forth the top ten major employers located in the City during 2018.

CITY OF GARDEN GROVE
MAJOR EMPLOYERS
(2018)

Name	*Employees*	*Type of business or entity*
Great Wolf Lodge Southern California	700	Resort/Hotel
Air Industries Company	625	Manufacturing
Garden Grove Medical Center	516	Medical Center
Hyatt Regency	424	Resort/Hotel
GKN Aerospace Transparency Systems, Inc.	409	Aerospace Manufacturer
C&D Zodiac	350	Aerospace Manufacturer
Costco	323	Retail
Walmart #4171	281	Retail
Lutheran Social Services of Southern California	250	Social Services
Full Clip/Customfab Inc.	230	Manufacturing

Source: City of Garden Grove, *Comprehensive Annual Financial Report – Year Ending June 30, 2018.*

Employment and Industry

Anaheim-Santa Ana-Irvine Metropolitan Division civilian labor force and wage and salary employment figures for calendar years 2014 through 2018 are shown in the following table.

Anaheim-Santa Ana-Irvine Metropolitan Division
Industry Employment & Labor Force - by Annual Average

Category	*2014*	*2015*	*2016*	*2017*	*2018*
Civilian Labor Force	1,569,000	1,585,800	1,598,800	1,609,800	1,625,400
Civilian Employment	1,482,900	1,514,900	1,534,100	1,553,400	1,577,900
Civilian Unemployment	86,100	70,900	64,700	56,400	47,500
Civilian Unemployment Rate	5.5%	4.5%	4.0%	3.5%	2.9%
Total Farm	2,800	2,400	2,400	21,00	2,000
Total Nonfarm	1,496,600	1,544,500	1,584,500	1,617,000	1,649,300
Total Private	1,344,400	1,388,100	1,424,900	1,456,800	1,488,600
Goods Producing	241,800	249,900	255,900	262,700	266,400
Natural Resources and Mining	500	400	300	500	500
Construction	83,100	91,700	97,400	101,800	106,100
Manufacturing	158,200	157,800	158,200	160,500	159,800
Durable Goods	116,200	116,100	116,200	117,300	117,600
Nondurable Goods	42,000	41,800	42,000	43,200	42,200
Service Providing	1,254,800	1,294,600	1,328,600	1,354,300	1,383,000
Private Service Providing	1,102,600	1,138,200	1,169,000	1,194,100	1,222,200
Trade, Transportation and Utilities	254,200	257,400	258,500	260,500	262,200
Wholesale Trade	79,100	78,900	78,600	79,000	80,100
Retail Trade	148,600	151,600	152,600	153,500	152,900
Transportation, Warehousing and Utilities	26,500	26,900	27,200	28,000	29,300
Information	23,400	24,900	26,000	26,800	26,700
Financial Activities	113,900	116,400	118,000	119,600	119,100
Professional and Business Services	278,400	287,900	297,900	303,000	315,400
Educational and Health Services	190,900	198,900	206,200	215,900	225,000
Leisure and Hospitality	194,500	203,800	212,000	218,100	222,600
Other Services	47,300	48,900	50,500	50,300	51,100
Government	152,200	156,400	159,600	160,200	160,800
Total, All Industries	1,499,400	1,547,000	1,586,900	1,617,000	1,651,300

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.
Source: State of California, Employment Development Department, Labor Market Information Division, Anaheim-Santa Ana-Irvine Metropolitan Division, Industry Employment & Labor Force - by Annual Average, March 2018 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the years 2014 through 2018 for the City, the County, the State and the nation as a whole.

CITY OF GARDEN GROVE, ORANGE COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Average Annual Civilian Labor Force, Employment and Unemployment

Year and Area	***Labor Force***[(1)]	***Employment***[(2)]	***Unemployment***[(3)]	***Unemployment Rate***
2014				
City of Garden Grove	82,200	76,600	5,600	6.8%
Orange County	1,569,000	1,482,900	86,100	5.5
California	18,714,700	17,310,900	1,403,800	7.5
United States[(4)]	155,922,000	146,305,000	9,617,000	6.2
2015				
City of Garden Grove	82,400	77,800	4,600	5.6%
Orange County	1,585,800	1,514,900	70,900	4.5
California	18,851,100	17,681,800	1,169,200	6.2
United States[(4)]	157,130,000	148,834,000	8,296,000	5.3
2016				
City of Garden Grove	82,200	78,500	3,700	4.5%
Orange County	1,598,800	1,534,100	64,700	4.0
California	19,044,500	18,002,800	1,041,700	5.5
United States[(4)]	159,187,000	151,436,000	7,751,000	4.9
2017				
City of Garden Grove	81,900	78,700	3,200	3.9%
Orange County	1,609,800	1,553,400	56,400	3.5
California	19,205,300	18,285,500	919,800	4.8
United States[(4)]	160,320,000	153,337,000	6,982,000	4.4
2018				
City of Garden Grove	82,600	80,000	2,700	3.2%
Orange County	1,625,400	1,577,900	47,500	2.9
California	19,398,200	18,582,800	815,400	4.2
United States[(4)]	162,075,000	155,761,000	6,314,000	3.9

(1) Includes persons involved in labor-management trade disputes.
(2) Includes all persons without jobs who are actively seeking work.
(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.
(4) Not strictly comparable with data for prior years.
Source: California Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Retail Sales

The table below presents the City's retail sales for the years 2013 through 2017 and through the first quarter of 2018.

CITY OF GARDEN GROVE
Taxable Transactions For Years 2013 through 2018[1]
(in Thousands)

Year	***Retail Stores Taxable Transactions***	***Total Taxable Transactions***
2013	$1,498,319	$1,782,344
2014	1,438,487	1,729,278
2015	1,443,636	1,816,122
2016	1,414,680	1,817,968
2017	1,460,801	1,848,377
2018[1]	1,109,652	1,397,444

(1) Through first quarter of 2018.
Source: California State Board of Equalization.

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2019 Bonds, payment of principal, premium, if any, accreted value and interest on the 2019 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2019 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2019 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2019 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2019 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

ORANGE COUNTY INVESTMENT POLICY STATEMENT AND MONTHLY REPORT

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Orange County Treasurer

2019 Investment Policy Statement

(Approved By B.O.S. 12/18/2018)

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ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the "Treasurer") and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.

ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

III. <u>PRUDENCE</u>

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. SAFETY

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

a) **Credit Risk:** Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. LIQUIDITY

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. YIELD

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a $1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than $.9975, holdings may be sold as necessary to maintain the NAV above $.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above $.9975 and will provide the NAV of all pools in the monthly report. However, the $1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool's total assets may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. BANKERS' ACCEPTANCES

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.

b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000.

8. STATE POOL – LOCAL AGENCY INVESTMENT FUND

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (currently at $65 million per pool).

9. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the Treasurer within a reasonable amount of time.

Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed below. Money Market

Mutual funds (as defined in Section VI 7) and Investment Pools (as defined in Section VI 11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO. In addition, all Supranational Securities shall be rated "AA" or higher from all NRSROs that rate the issuer.

The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's)and Fitch Ratings (Fitch). In addition, all investments, except those noted above, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

a) <u>Short-term debt ratings:</u>

"A-1" or "SP-1"	S&P
"P-1" or "MIG 1/VMIG 1"	Moody's
"F1"	Fitch

Split ratings below the minimum rating required are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt with remaining maturities of 397 days or less must have no less than an "AA" rating on long-term debt, from each of the NRSROs that rate the issuer.

<u>Long-term debt ratings:</u>
Investments purchased with remaining maturities longer than 397 days, shall have obtained no less than an "AA" rating by all NRSROs that rate the issuer. If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1 or F1 and ratings by all NRSROs that rate the issuer must meet these minimum ratings.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent and have capital of not less than $500 million.

c) Any issuer that has been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:
The issuer has:
(a) an A-1+ or F1+ short-term rating; and
(b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

d) If any issuer is placed on "Credit Watch-Negative" by any NRSRO, all related entities, including parent and subsidiaries, will also be placed on hold and subject to the above requirements.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer's Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100%	5 Years	5 Years	397 Days
Municipal Debt	100%	20% Total, no more than 5% in one issuer except 10%- County of Orange	5 Years	3 Years	397 Days
Medium-Term Notes	30%	20% Total, no more than 5% in one issuer	5 Years	2 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	20% Total, no more than 5% in one issuer	5 Years	18 months	397 Days
State of California Local Agency Investment Fund	$65 million per account	State limit (currently $65 million per pool)	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20%	20% Total, no more than 10% in one MMMF account	N/A	N/A	N/A
JPA Investment Pools (JPA)	100%	20% Total, no more than 10% in one JPA Pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.

b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of

Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

Short-term	13 months (397)
Long-term	5 years

c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

a) Borrowing for investment purposes ("Leverage").

b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.

c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

d) Structured Investment Vehicles (SIV).

e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).

f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors ("outside entities") that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County's Conflict-of-Interest Code.

2. COUNTY'S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.

The County's Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and "designated employees" from business entities and individuals that "do business with the County" as that termed in defined in the Ordinance. Under the Ordinance, the term "designated employee" includes every employee of the County who is designated in the County's Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer's Office, "designated employees" include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of "designated employees" periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a "primary" or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations

Code or a “well capitalized” national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution’s financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County’s Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department’s Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period, the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer's monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing. Upon the Treasurer's approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency's authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency's excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund’s performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer’s Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer’s Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer’s office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT
GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

*+ (positive)	Credit is under review for possible upgrade.
*- (negative)	Credit is under review for possible downgrade.
*	Credit is under review, direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTORLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR′S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

(Price appreciation) + (Dividends paid) + (Capital gains) = Total Return

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.
>
> **Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.