NEW ISSUE—FULL BOOK-ENTRY **RATING: "AA" (S&P)**
See "MISCELLANEOUS—Rating" herein

STATE OF CALIFORNIA **COUNTY OF LOS ANGELES**

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

$23,000,000
HERMOSA BEACH CITY SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS SERIES B

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

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 $23,000,000 Hermosa Beach City School District (Los Angeles County, California) Election of 2016 General Obligation Bonds, Series B (the "Series B Bonds") were authorized at an election of the registered voters of the Hermosa Beach City School District (the "District") held on June 7, 2016, at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed $59,000,000 principal amount of general obligation bonds of the District (the "2016 Authorization"). The Series B Bonds represent the second series of bonds issued under the 2016 Authorization and are being issued to (i) finance construction of school facilities and/or improvements to and the acquisition of furniture and equipment for one or more schools within the District as authorized by the voters at the June 7, 2016 election, (ii) pay the costs of issuing the Series B Bonds, and (iii) pay a portion of the interest on the Series B Bonds to February 1, 2021. See "INTRODUCTION—Purpose of Issue" and "THE SERIES B BONDS—Application and Investment of Series B Bond Proceeds and *Ad Valorem* Taxes" herein.

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

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

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

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

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

MATURITY SCHEDULE
(See Following Page)

The Series B Bonds were sold by competitive bid on October 9, 2019 to Raymond James & Associates, Inc. (the "Purchaser"). The Series B Bonds will be offered when, as and if issued and received by the Purchaser, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel. The Series B Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about October 23, 2019.

Dated: October 9, 2019

MATURITY SCHEDULE

BASE CUSIP† NO. 427632

$23,000,000
HERMOSA BEACH CITY SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS SERIES B

Maturity (August 1)	***Principal Amount***	***Interest Rate***	***Yield***	***Price***	***CUSIP†***
2020	$ 820,000	5.000%	0.910%	103.138	DA9
2021	1,000,000	5.000	0.910	107.172	DB7
2029	40,000	5.000	1.170	135.268	DC5
2030	85,000	4.000	1.280	124.908[C]	DD3
2031	140,000	4.000	1.370	123.976[C]	DE1
2032	195,000	4.000	1.470	122.949[C]	DF8
2033	260,000	4.000	1.560	122.034[C]	DG6
2034	325,000	2.000	2.079	99.000	DH4
2035	395,000	2.125	2.200	99.003	DJ0
2036	470,000	2.250	2.330	98.892	DK7
2037	550,000	2.250	2.400	97.838	DL5
2038	630,000	2.375	2.500	98.134	DM3
2039	725,000	3.000	2.330	105.823[C]	DN1
2040	825,000	3.000	2.380	105.375[C]	DP6
2041	930,000	3.000	2.410	105.107[C]	DQ4
2042	1,035,000	3.000	2.440	104.840[C]	DR2
2043	1,155,000	3.000	2.480	104.485[C]	DS0
2044	1,280,000	3.000	2.500	104.308[C]	DT8
2045	1,415,000	3.000	2.510	104.220[C]	DU5
2046	2,405,000	3.000	2.530	104.044[C]	DV3
2047	2,665,000	3.000	2.550	103.868[C]	DW1

$5,655,000 3.000% Term Bonds due August 1, 2049, Yield: 2.580, Price: 103.605[C] CUSIP† 427632 DX9

[C] Priced to the optional redemption date of August 1, 2029, at par.

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

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

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

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

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

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

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

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

HERMOSA BEACH CITY SCHOOL DISTRICT

BOARD OF EDUCATION

Douglas Gardner, President
Jennifer Cole, Clerk
Stephen McCall, Member
Margaret Bove-LaMonica, Member
Barbara Zondiros, Member

DISTRICT ADMINISTRATION

Patricia Escalante, *Superintendent*
Paula Montalbo, *Business Manager*
Kim Taylor*, Director of Administrative Services*

PROFESSIONAL SERVICES

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

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

Paying Agent
U.S. Bank National Association, as agent for the
Treasurer and Tax Collector of Los Angeles County
Los Angeles, California

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$23,000,000
HERMOSA BEACH CITY SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
ELECTION OF 2016 GENERAL OBLIGATION BONDS SERIES B

INTRODUCTION

This Official Statement (which includes the cover page, the Table of Contents and the Appendices attached hereto) is furnished by the Hermosa Beach City School District (the "District"), located in Los Angeles County (the "County"), California, to provide information concerning the $23,000,000 Hermosa Beach City School District, Los Angeles County, California, Election of 2016 General Obligation Bonds, Series B (the "Series B Bonds").

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

The District

The District was established in 1904 and encompasses 1.3 square miles in the South Bay region of the County. The District's boundaries are conterminous with the limits of the City of Hermosa Beach. The District operates two elementary schools and is intending to build a third school on an existing site that it owns with a portion of the proceeds of the Series B Bonds. The total enrollment in the District during fiscal year 2018-19 was approximately 1,346 students and the projected enrollment for fiscal year 2019-20 is approximately 1,330 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

The Series B Bonds were approved by the voters of the District at the June 7, 2016 election. At the election, the voters approved the issuance of $59,000,000 of general obligation bonds (the "2016 Authorization"). Pursuant to the 2016 Authorization, on November 30, 2016 the District issued its $25,000,000 Election of 2016 General Obligation Bonds, Series A. The Series B Bonds represent the second series to be issued pursuant to the 2016 Authorization. Proceeds from the Series B Bonds will be used to (i) finance construction of school facilities and/or improvements to and the acquisition of furniture and equipment for one or more schools within the District as authorized by the voters at the June 7, 2016 election (the "Project"), (ii) pay the costs of issuing the Series B Bonds, and (iii) pay a portion of the interest on the Series B Bonds to February 1, 2021. See "THE SERIES B BONDS—Application and Investment of Series B Bond Proceeds and Tax Revenues" and "Sources and Uses of Funds" herein.

Sources of Payment for the Series B Bonds

Ad Valorem Taxes. The Series B Bonds are general obligation bonds of the District. The Board of Supervisors of the County has the power and is obligated annually to levy *ad valorem* taxes for the payment of the Series B Bonds and the interest thereon upon all property within the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). See “SECURITY FOR THE SERIES B BONDS” herein.

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

Description of the Series B Bonds

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

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

Redemption. The Series B Bonds are subject to redemption prior to maturity. See “THE SERIES B BONDS—Redemption of Series B Bonds” herein.

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

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

Tax Matters

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

Authority for Issuance of the Series B Bonds

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

Offering and Delivery of the Series B Bonds

The Series B Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Series B Bonds will be available for delivery through the facilities of DTC in New York, New York on or about October 23, 2019.

Continuing Disclosure

The District will execute and deliver a Continuing Disclosure Certificate in connection with the Series B Bonds in which it will covenant for the benefit of the Purchaser (as defined below), 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, as amended. 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

Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Series B Bonds. Isom Advisors, a Division of Urban Futures, Inc., Walnut Creek, California is serving as municipal advisor to the District in connection with the issuance of the Series B Bonds. The fees paid to these consultants are contingent upon the sale and delivery of the Series B Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Series B Bonds are available from the Hermosa Beach City School District, 425 Valley Drive, Hermosa Beach, California 90254, telephone: (310) 937-5877. The District may impose a charge for copying, mailing and handling.

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

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

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

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

THE SERIES B BONDS

Authority for Issuance

The Series B Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code commencing with Section 53506 (the "Act") and other applicable law, and pursuant to a resolution adopted by the Board of Education of the District on September 11, 2019 (the "Bond Resolution") and a resolution adopted by the Board of Supervisors of the County on October 1, 2019. Pursuant to its resolution, the Board of Supervisors of the County has agreed that it will levy *ad valorem* taxes for the payment of the principal of and interest on the Series B Bonds. See "SECURITY FOR THE SERIES B BONDS" herein.

Security and Sources of Payment

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

Pursuant to Section 53515 of the State of California Government Code, the Series B Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. Under the provisions of Section 53515: (i) the lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the Series B Bonds are executed and delivered, and (ii) the revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

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

Description of the Series B Bonds

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

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

Paying Agent

U.S. Bank National Association will act as agent of the Treasurer and Tax Collector of Los Angeles County, as the designated paying agent, authenticating agent and transfer agent (the "Paying Agent") for the Series B Bonds.

If the Paying Agent resigns or is removed by the District, a successor Paying Agent will be appointed by the District. Any successor Paying Agent selected by the District, other than the Treasurer, may be any bank, trust company, national banking association or other financial institution having capital stock and surplus aggregating at least $50,000,000 and doing business in the State of California.

Application and Investment of Series B Bond Proceeds and Tax Revenues

The Series B Bonds are being issued to: (i) finance the Project, (ii) pay the costs of issuing the Series B Bonds, and (iii) pay a portion of the interest on the Series B Bonds to February 1, 2021.

A portion of the proceeds from the sale of the Series B Bonds paid to the District by the Purchaser shall be deposited in the Hermosa Beach City School District Election of 2016 General Obligation Bonds Series B Building Fund (the "Building Fund") established under the Bond Resolution and shall be kept separate and distinct from all other District and County funds. Interest earned on the investment of monies held in the Building Fund shall be retained in the Building Fund. The proceeds in the Building Fund shall be disbursed as directed by the District to pay for the Project.

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

Any original issue premium received from the sale of the Series B Bonds and the *ad valorem* property taxes securing the payment of the Series B Bonds, when received, shall be kept separate and apart in the

Hermosa Beach City School District Election of 2016 General Obligation Bonds Series B Debt Service Fund (the "Debt Service Fund") established under the Bond Resolution and used only for payments of principal and interest on the Series B Bonds. Interest earned on the investment of monies held in the Debt Service Fund shall be retained in the Debt Service Fund and used to pay principal of and interest on the Series B Bonds when due.

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

Investment of Bond Proceeds. Monies held in the Building Fund, the Debt Service Fund and the Rebate Fund established under the Bond Resolution may be invested in any investments which are lawful investments for school districts under the laws of the State of California; provided, however, under current law, the Building Fund must be held in the Los Angeles County Treasury Pool.

It is anticipated that monies in the Building Fund, the Rebate Fund and the Debt Service Fund will be invested in the Los Angeles County Treasury Pool. See APPENDICES F and G hereto.

Redemption of Series B Bonds

Optional Redemption. The Series B Bonds maturing on or before August 1, 2029 are not subject to redemption. The Series B Bonds maturing on or after August 1, 2030 may be redeemed before maturity at the option of the District on any date on or after August 1, 2029 as a whole, or in part from such maturities as are selected by the District, at a redemption price equal to the principal amount of the Series B Bonds selected for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Series B Bonds maturing on August 1, 2049 are subject to redemption prior to maturity from a mandatory sinking fund payment on August 1, 2048, 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 Series B Bonds to be so redeemed and the redemption date therefor and the final principal payment date and amount are set forth in the following table:

Redemption Date (August 1)	***Principal Amount***
2048	$2,770,000
2049†	2,885,000

† Final Maturity.

Selection of Series B Bonds for Redemption

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

Notice of and Effect of Redemption of the Series B Bonds

So long as the Series B 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.

When redemption is authorized or required pursuant the Bond Resolution, the Paying Agent will give notice (a "Redemption Notice") of the redemption of the Series B Bonds at least 30 but not more than 60 days prior to the redemption date (a) so long as the Series B Bonds are registered in the name of DTC or its nominee, in such manner as complies with the requirements of DTC, and (b) if the Series B Bonds are no longer held in book-entry form, by first class mail, postage prepaid to each Owner of the Series B Bonds at the addresses appearing on the bond register. Each Redemption Notice shall specify: (a) the Series B Bonds or designated portions thereof (in the case of redemption of the Series B Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Series B Bonds to be redeemed, (f) the numbers of the Series B Bonds to be redeemed in whole or in part and, in the case of any Series B Bond to be redeemed in part only, the principal of such Series B Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Series B Bond to be redeemed in whole or in part. Each Redemption Notice shall further state that on the specified date there shall become due and payable upon each Series B Bond or portion thereof being redeemed the redemption price thereof, together with the interest accrued to the redemption date and that from and after such date, interest with respect thereto shall cease to accrue.

Neither failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of the Series B Bonds.

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

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

Book-Entry Only System

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

Beneficial Owners of the Series B Bonds as described herein. See Appendix E—"BOOK-ENTRY ONLY SYSTEM" herein.

Defeasance

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

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

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

With respect to any of the Series B Bonds so defeased, notwithstanding that any of such Series B Bonds shall not have been surrendered for payment, all obligations of the District with respect to such Series B Bonds shall cease and terminate, except only the obligation of the District and the Paying Agent, or an independent escrow agent selected by the District, to pay or cause to be paid from funds deposited as described above, to the Owners of such designated Series B Bonds not so surrendered and paid, all sums due with respect thereto.

In the Bond Resolution, Government Obligations are defined as:

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

Supplemental Resolutions

The Bond Resolution and the rights and obligations of the District and of the Owners of the Series B Bonds issued thereunder may be modified or amended at any time by a supplemental resolution adopted by the District with the written consent of Owners owning at least 60% in aggregate principal amount of the Series B Bonds then Outstanding under the Bond Resolution exclusive of any of such Series B Bonds owned by the District; provided, however, that no such modification or amendment shall, without the express consent of the Owner of each Series B Bond affected, reduce the principal amount of any such Series B Bond, reduce the interest rate payable thereon, advance the earliest redemption date thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal and interest is payable, nor shall any modification or amendment reduce the percentage of consents required for amendment or modification. No such Supplemental Resolution shall change or modify any of the rights or obligations of any Paying Agent without its written assent thereto.

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

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

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

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

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

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

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

Unclaimed Moneys

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

Sources and Uses of Funds

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

Sources of Funds	
Principal Amount of Series B Bonds	$23,000,000.00
Plus Net Original Issue Premium	987,303.30
Total Sources of Funds	$23,987,303.30
Uses of Funds	
Building Fund	$22,820,000.00
Debt Service Fund[(1)]	736,603.30
Costs of Issuance and Purchaser's Discount[(2)]	430,700.00
Total Uses of Funds	$23,987,303.30

(1) Amount to pay a portion of the interest due on the Series B Bonds to February 1, 2021.
(2) All costs of issuance related to the Series B Bonds and Purchaser's discount.

DEBT SERVICE SCHEDULE

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

Period Ending (August 1)	*Series B Bonds Annual Principal Payment*	*Series B Bonds Semiannual Interest Payment*	*Total*
2/1/2020	--	$ 194,831.15	$ 194,831.15
8/1/2020	$ 820,000	357,853.13	1,177,853.13
2/1/2021	--	337,353.13	337,353.13
8/1/2021	1,000,000	337,353.13	1,337,353.13
2/1/2022	--	312,353.13	312,353.13
8/1/2022	--	312,353.13	312,353.13
2/1/2023	--	312,353.13	312,353.13
8/1/2023	--	312,353.13	312,353.13
2/1/2024	--	312,353.13	312,353.13
8/1/2024	--	312,353.13	312,353.13
2/1/2025	--	312,353.13	312,353.13
8/1/2025	--	312,353.13	312,353.13
2/1/2026	--	312,353.13	312,353.13
8/1/2026	--	312,353.13	312,353.13
2/1/2027	--	312,353.13	312,353.13
8/1/2027	--	312,353.13	312,353.13
2/1/2028	--	312,353.13	312,353.13
8/1/2028	--	312,353.13	312,353.13
2/1/2029	--	312,353.13	312,353.13
8/1/2029	40,000	312,353.13	352,353.13
2/1/2030	--	311,353.13	311,353.13
8/1/2030	85,000	311,353.13	396,353.13
2/1/2031	--	309,653.13	309,653.13
8/1/2031	140,000	309,653.13	449,653.13
2/1/2032	--	306,853.13	306,853.13
8/1/2032	195,000	306,853.13	501,853.13
2/1/2033	--	302,953.13	302,953.13
8/1/2033	260,000	302,953.13	562,953.13
2/1/2034	--	297,753.13	297,753.13

8/1/2034	325,000	297,753.13	622,753.13
2/1/2035	--	294,503.13	294,503.13
8/1/2035	395,000	294,503.13	689,503.13
2/1/2036	--	290,306.25	290,306.25
8/1/2036	470,000	290,306.25	760,306.25
2/1/2037	--	285,018.75	285,018.75
8/1/2037	550,000	285,018.75	835,018.75
2/1/2038	--	278,831.25	278,831.25
8/1/2038	630,000	278,831.25	908,831.25
2/1/2039	--	271,350.00	271,350.00
8/1/2039	725,000	271,350.00	996,350.00
2/1/2040	--	260,475.00	260,475.00
8/1/2040	825,000	260,475.00	1,085,475.00
2/1/2041	--	248,100.00	248,100.00
8/1/2041	930,000	248,100.00	1,178,100.00
2/1/2042	--	234,150.00	234,150.00
8/1/2042	1,035,000	234,150.00	1,269,150.00
2/1/2043	--	218,625.00	218,625.00
8/1/2043	1,155,000	218,625.00	1,373,625.00
2/1/2044	--	201,300.00	201,300.00
8/1/2044	1,280,000	201,300.00	1,481,300.00
2/1/2045	--	182,100.00	182,100.00
8/1/2045	1,415,000	182,100.00	1,597,100.00
2/1/2046	--	160,875.00	160,875.00
8/1/2046	2,405,000	160,875.00	2,565,875.00
2/1/2047	--	124,800.00	124,800.00
8/1/2047	2,665,000	124,800.00	2,789,800.00
2/1/2048	--	84,825.00	84,825.00
8/1/2048	2,770,000	84,825.00	2,854,825.00
2/1/2049	--	43,275.00	43,275.00
8/1/2049	2,885,000	43,275.00	2,928,275.00
Total	$23,000,000	$15,639,240.68	$38,639,240.68

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The following table summarizes the aggregate annual debt service requirements for all of the District's outstanding general obligation bonds:

HERMOSA BEACH CITY SCHOOL DISTRICT
AGGREGATE ANNUAL DEBT SERVICE[(1)]

Year Ending (August 1)	*Prior General Obligation Bonds*	*Series B Bonds*	*Total*
2020	$ 2,117,925	$ 1,372,684	$ 3,490,609
2021	2,127,775	1,674,706	3,802,481
2022	2,201,425	624,706	2,826,131
2023	2,283,875	624,706	2,908,581
2024	2,363,675	624,706	2,988,381
2025	2,509,925	624,706	3,134,631
2026	2,598,425	624,706	3,223,131
2027	2,764,175	624,706	3,388,881
2028	2,726,925	624,706	3,351,631
2029	2,821,425	664,706	3,486,131
2030	2,927,425	707,706	3,635,131
2031	1,504,425	759,306	2,263,731
2032	1,562,425	808,706	2,371,131
2033	1,620,925	865,906	2,486,831
2034	1,679,675	920,506	2,600,181
2035	1,743,425	984,006	2,727,431
2036	1,807,200	1,050,613	2,857,813
2037	1,877,475	1,120,038	2,997,513
2038	1,948,900	1,187,663	3,136,563
2039	2,019,600	1,267,700	3,287,300
2040	2,095,400	1,345,950	3,441,350
2041	2,170,800	1,426,200	3,597,000
2042	2,255,600	1,503,300	3,758,900
2043	2,339,200	1,592,250	3,931,450
2044	2,426,400	1,682,600	4,109,000
2045	2,516,800	1,779,200	4,296,000
2046	--	2,726,750	2,726,750
2047	--	2,914,600	2,914,600
2048	--	2,939,650	2,939,650
2049	--	2,971,550	2,971,550
Total	$ 57,011,225	$38,639,238	$95,650,463

(1) Amounts rounded to the nearest dollar.
Source: Municipal Advisor.

SECURITY FOR THE SERIES B BONDS

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

As of October 1, 2019, District had $28,718,647 principal amount (exclusive of accreted interest) of general obligation bonds outstanding (the "Prior General Obligation Bonds"). Following the issuance of the Series B Bonds, the District will have a total of $51,718,647 principal amount (exclusive of accreted interest) of general obligation bonds outstanding. $4,583,647 of the Prior General Obligation Bonds are capital appreciation bonds with a maturity value of $14,070,000.

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

The assessed valuation of property in the District is $7,989,293,188 for fiscal year 2019-20, an increase of approximately 31.2% from fiscal year 2015-16. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—Historical Data Concerning District Tax Base." While the assessed valuation of property in the District has increased over recent years, as discussed above, a number of 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 not adopted the Teeter Plan (defined below). As a result, the District's receipt of property taxes is subject to delinquencies. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

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

TAX BASE FOR REPAYMENT OF THE SERIES B BONDS

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

Ad Valorem Property Taxation

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

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

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

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

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

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

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

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

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

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

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

Taxation of State-Assessed Utility Property. A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. The assessed value of unitary and certain other state-assessed property is allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

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 net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The County has not adopted the Teeter Plan, and consequently the Teeter Plan is not available to local taxing entities within the County, such as the District. The District's receipt of property taxes is therefore subject to delinquencies and the County will pay to the District only actual amounts collected.

Historical Data Concerning District Tax Base

The information provided in Tables 1 through 6 below has been provided by California Municipal Statistics, Inc., an independent consulting firm. Neither the District nor the Purchaser has 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 $7,989,293,188. Table 1 below provides a five-year history of assessed valuations in the District.

TABLE 1
ASSESSED VALUATIONS
Fiscal Year 2014-15 through 2018-19
Hermosa Beach City School District

	Local Secured	***Utility***	***Unsecured***	***Total***
2015-16	$6,043,529,037	$580,400	$44,979,594	$6,089,089,031
2016-17	6,552,847,820	580,400	40,355,701	6,593,783,921
2017-18	7,040,130,592	580,400	42,005,566	7,082,716,558
2018-19	7,495,085,701	580,400	44,748,545	7,540,414,646
2019-20	7,938,902,723	580,400	49,810,065	7,989,293,188

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 2015-16 through 2018-19. 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 2015-16 through 2018-19. The County has not adopted the Teeter Plan. As a result, the District's receipt of property taxes is subject to delinquencies and the County will pay to the District only the actual amounts collected. See "TAX BASE FOR REPAYMENT OF THE SERIES B BONDS—*Ad Valorem* Property Taxation—*Teeter Plan*."

TABLE 2A
HERMOSA BEACH CITY SCHOOL DISTRICT
Secured Tax Charges and Delinquencies

	Secured Tax Charges Levied[(1)]	***Delinquent Secured Taxes***	***% Delinquent June 30***[(2)]
2014-15	$2,971,332.84	$42,925.38	1.44%
2015-16	3,179,489.16	45,248.08	1.42
2016-17	3,820,680.45	45,571.88	1.19
2017-18	4,103,965.46	51,193.09	1.25
2018-19	4,340,472.33	59,525.86	1.37

(1) 1% base property tax apportionment to the District. Excludes redevelopment agency/successor agency impounds.
(2) Reflects a County-wide delinquency rate.
Source: California Municipal Statistics, Inc.

TABLE 2B
HERMOSA BEACH CITY SCHOOL DISTRICT
Secured Tax Charges and Delinquencies
for General Obligation Bonds

	Secured Tax Charges Levied[1]	*Delinquent Secured Taxes*	*% Delinquent June 30*
2014-15	$ 837,270.33	$ 9,033.91	1.08%
2015-16	956,097.06	8,665.88	0.91
2016-17	978,186.74	7,650.09	0.79
2017-18	2,827,166.88	22,621.37	0.80
2018-19	1,960,111.39	24,019.42	1.23

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

Tax Rates

There is one tax rate area in the District. Table 3 summarizes the total *ad valorem* tax rates levied by all taxing entities in such tax rate area within the District for fiscal years 2015-16 through 2019-20 expressed as a percentage of the assessed value of the property upon which such taxes were levied.

TABLE 3
HERMOSA BEACH CITY SCHOOL DISTRICT
Summary of *Ad Valorem* Tax Rates
Total Tax Rates (TRA 4340)[1]

	2015-16	*2016-17*	*2017-18*	*2018-19*	*2019-20*
General	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Hermosa Beach City School District	0.015746	0.014928	0.040245	0.025942	0.039696
El Camino Community College District	0.017447	0.022942	0.021199	0.022229	0.021555
Metropolitan Water District	0.035000	0.035000	0.035000	0.035000	0.003500
Total	1.036693%	1.041370%	1.064944%	1.051671%	1.064751%

(1) Fiscal year 2019-20 assessed valuation of TRA 4340 is $7,989,293,188 which is 100% of the District's total assessed valuation.
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 2019-20 fiscal year.

TABLE 4
HERMOSA BEACH CITY SCHOOL DISTRICT
Twenty Largest 2019-20 Local Secured Property Taxpayers

	Property Owner	*Primary Land Use*	*2019-20 Assessed Valuation*	*% of Total*[(1)]
1.	Crico of Fountain Plaza LP	Apartments	$ 84,060,546	1.06%
2.	EQR Gallery Apartments Limited	Apartments	75,263,017	0.95
3.	1601 PCH LP	Shopping Center	26,415,600	0.33
4.	S&P Hermosa Parent LLC	Commercial	25,226,978	0.32
5.	Bagnard Company, LLC	Residence	18,472,196	0.23
6.	Hermosa Hotel Investments LLC	Hotel	18,168,611	0.23
7.	South Bay III LLC	Residence	17,473,871	0.22
8.	REG8 Plaza Hermosa LLC	Shopping Center	16,513,135	0.21
9.	Sepulveda Design Center LLC	Commercial	16,319,543	0.21
10.	Johnny and Elizabeth Lopez, Trustees	Residence	16,263,977	0.20
11.	IWF Hotel Hermosa LP	Hotel	15,876,435	0.20
12.	William Stirton	Residence	15,704,682	0.20
13.	2200 Associates LLC	Office Building	15,175,211	0.19
14.	Kathy Ishii	Residence	14,721,660	0.19
15.	Shay Properties LLC	Residence	14,509,064	0.18
16.	Boris LLC	Residence	14,471,153	0.18
17.	Blake Holdings II LLC	Residence	14,074,805	0.18
18.	George H. Schuler	Office Building	13,952,216	0.18
19.	Blue Ocean View LLC	Residence	13,918,404	0.18
20.	2302 The Strand LLC	Residence	13,260,000	0.17
			$ 459,841,104	5.79%

(1) Based on 2019-20 Local Secured Assessed Valuation (excluding tax-exempt property) of $7,938,902,723.
Source: California Municipal Statistics, Inc.

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Table 5 describes the District's land use by type in fiscal year 2019-20, which reflects that 90.89% of the total assessed valuation is for residential property and 9.11% for nonresidential property.

TABLE 5
HERMOSA BEACH CITY SCHOOL DISTRICT
2019-20 Assessed Valuation and Parcels by Land Use

	2019-20 Assessed Valuation [1]	*% of Total*	*No. of Parcels*	*% of Total*
Non-Residential:				
Commercial/Office	$ 580,005,892	7.31%	379	5.29%
Vacant Commercial	63,498,135	0.80	198	2.76
Industrial	16,668,661	0.21	29	0.40
Vacant Industrial	3,230,996	0.04	5	0.07
Recreational	3,353,861	0.04	2	0.03
Government/Social/Institutional	33,682,182	0.42	68	0.98
Miscellaneous	22,491,292	0.28	10	0.14
Subtotal Non-Residential	$ 722,931,019	9.11%	691	9.64%
Residential:				
Single Family Residence	$ 4,165,006,374	52.46%	3,482	48.56%
Condominium/Townhouse	1,462,849,283	18.43	1,533	21.38
Mobile Home Park	9,148,499	0.12	3	0.04
2-4 Residential Units	1,127,813,984	14.21	1,221	17.03
5+ Residential Units/Apartments	424,970,869	5.35	170	2.37
Vacant Residential	26,282,728	0.33	70	0.98
Subtotal Residential	7,215,971,704	90.89	6,479	90.36
Total	**$ 7,938,902,723**	**100.00%**	**7,170**	**100.00%**

[1] Local Secured Assessed Valuation; 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 2019-20.

TABLE 6
HERMOSA BEACH CITY SCHOOL DISTRICT
Assessed Valuation per Parcel of Single Family Homes
Fiscal Year 2019-20

	No. of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	3,482	$4,165,006,374	$1,196,153	$832,674

2019-20 Assessed Valuation	No. of Parcels [1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $99,999	172	4.940%	4.940%	$ 13,704,731	0.329%	0.329%
$100,000 - $199,999	292	8.386	13.326	41,214,446	0.990	1.319
$200,000 - $299,999	222	6.376	19.701	56,696,124	1.361	2.680
$300,000 - $399,999	201	5.773	25.474	70,616,900	1.695	4.375
$400,000 - $499,999	261	7.496	32.970	116,812,055	2.805	7.180
$500,000 - $599,999	214	6.146	39.115	117,399,118	2.819	9.999
$600,000 - $699,999	182	5.227	44.342	117,944,842	2.832	12.830
$700,000 - $799,999	143	4.107	48.449	107,093,247	2.571	15.402
$800,000 - $899,999	164	4.710	53.159	139,410,228	3.347	18.749
$900,000 - $999,999	193	5.543	58.702	183,265,030	4.400	23.149
$1,000,000 - $1,099,999	173	4.968	63.670	181,208,227	4.351	27.500
$1,100,000 - $1,199,999	133	3.820	67.490	153,305,718	3.681	31.181
$1,200,000 - $1,299,999	115	3.303	70.793	143,810,244	3.453	34.633
$1,300,000 - $1,399,999	108	3.102	73.894	145,705,428	3.498	38.132
$1,400,000 - $1,499,999	99	2.843	76.738	143,082,054	3.435	41.567
$1,500,000 - $1,599,999	82	2.355	79.092	126,888,887	3.047	44.614
$1,600,000 - $1,699,999	82	2.355	81.447	134,982,200	3.241	47.854
$1,700,000 - $1,799,999	40	1.149	82.596	70,082,181	1.683	49.537
$1,800,000 - $1,899,999	49	1.407	84.003	91,003,823	2.185	51.722
$1,900,000 - $1,999,999	50	1.436	85.439	97,275,117	2.336	54.058
$2,000,000 and greater	507	14.561	100.000	1,913,505,774	45.942	100.000
Total	3,482	100.000%		$4,165,006,374	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 1904 and encompasses 1.3 square miles in the South Bay region of the County. The District's boundaries are conterminous with the limits of the City of Hermosa Beach. The District operates two elementary schools and is intending to build a third school on an existing site that it owns with a portion of the proceeds of the Series B Bonds. The total enrollment in the District during fiscal year 2018-19 was approximately 1,346 students and the projected enrollment for fiscal year 2019-20 is approximately 1,330 students. The District's pupil/teacher ratio for fiscal year 2018-19 was approximately 24:1 average for grade levels K through 3 and 30:1 average for grade levels 4 through 8.

Board of Education

The District is governed by a five member Board of Education. Members are elected to four year terms.

Table 7
HERMOSA BEACH CITY SCHOOL DISTRICT
Board of Education

Name	*Term Expires*
Douglas Gardner, President	2020
Jennifer Cole, Clerk	2022
Stephen McCall, Member	2022
Margaret Bove-LaMonica, Member	2022
Barbara Zondiros	2020

Source: Hermosa Beach City School 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.

Patricia Escalante, Superintendent. Patricia Escalante has served as an administrator in the District since 2011 and has been Superintendent for seven years. Prior to joining the District, Ms. Escalante was an administrator for the Beverly Hills Unified School District where she served for two years as a K-8 Assistant Principal, five years as a K-8 Principal and one year as the Director of Adult Education and Preschool Development. Ms. Escalante received her Bachelor of Science degree in Education from the University of Southern California and a Masters Degree in Organizational Leadership from the University of La Verne.

Paula Montalbo, Business Manager. Ms. Montalbo was appointed by the Board of Education as the Business Manager in July 2018. Ms. Montalbo was previously the data technician and has worked for the District for just over 5 years. Ms. Montalbo recently earned a Certificate in School Business Management from the University of Southern California.

Kim Taylor, Director of Administrative Services. Ms. Taylor was appointed as the Director of Administrative Services for the District, effective July 1, 2019. Prior to being appointed as Director of Administrative Services, Ms. Taylor had served as the principal of Hermosa Valley School (4^{th} – 8^{th} grades) since 2011. Ms. Taylor began her teaching career in Hermosa Beach in 1998. Ms. Taylor earned her Bachelor of Sciences degree in English and Secondary Education from Purdue University, Supplementary Teaching Authorization in Social Sciences from the University of California, Los Angeles, and her Master's degree in Administration from the Educational Leadership Academy at Pepperdine University.

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 the Hermosa Beach Educators Association (Certificated Unit). The District and the certificated personnel are currently operating under a contract that expires June 30, 2020. Under the contract, the District and the certificated personnel are to negotiate salary and certain other benefits for fiscal year 2019-20. Negotiations have not yet begun but are expected to begin in the near future.

As of June 30, 2018, the District employed 70 certificated employees with a total estimated payroll of $6,667,219. Based on unaudited actual results for fiscal year 2018-19 (the "2019 Unaudited Actuals"), the estimated payroll for certificated employees in fiscal year 2018-19 was approximately $7,009,049 for 68 certificated employees. Table 8 below sets forth the number of certificated employees for each of the last five fiscal years.

Table 8
HERMOSA BEACH CITY SCHOOL DISTRICT
Certificated Employees

Fiscal Year	***Total Number of Employees***
2014-15	72
2015-16	79
2016-17	71
2017-18	70
2018-19	68

Source: Hermosa Beach City School District.

The Hermosa Beach Educators Association (Classified Unit) is the bargaining agent for non-teaching (classified) personnel. The District and the classified employees are currently operating under a contract that expires on June 30, 2020. Under the contract, the District and the classified employees are to negotiate salary and certain other benefits for fiscal year 2019-20. Negotiations have not yet begun but are expected to begin in the near future.

As of June 30, 2018, the District employed 73 classified employees with a total estimated payroll of $1,926,177. Based on the 2019 Unaudited Actuals, the estimated payroll for classified employees in fiscal year 2018-19 was approximately $2,127,667 with 68 classified employees.

Table 9 below sets forth the number of classified employees for each of the last five fiscal years.

Table 9
HERMOSA BEACH CITY SCHOOL DISTRICT
Classified Employees

Fiscal Year	***Total Number of Employees***
2014-15	65
2015-16	65
2016-17	74
2017-18	73
2018-19	68

Source: Hermosa Beach City School 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 publicly available from PERS and STRS, their independent accountants and their actuaries. The

District has not independently verified the information regarding PERS and STRS and makes no representations nor expresses any opinion as to the accuracy of the information available from 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.

District Contributions to STRS and PERS and Net Pension Liability. The District contributed $954,337 and $972,712 to STRS in fiscal years 2016-17 and 2017-18, respectively. Based on the District's 2019 Unaudited Actuals, the District estimates a STRS contribution of $1,136,785 in fiscal year 2018-19.

The District's contributed $241,617 and $263,562 to PERS in fiscal years 2016-17 and 2017-18, respectively. In the 2019 Unaudited Actuals, the District estimates $306,079 as its contribution in fiscal year 2018-19. For additional information regarding the District's participation in STRS and PERS, see Note 11 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were 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, for pensions within the scope of Statement No. 68, 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. In November 2013, GASB issued Statement No. 71 which addressed an issue in the transition provisions of GASB No. 68.

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. As a result of implementing GASB No. 68 the District restated the beginning net position in its government-wide Statement of Net Position, effectively decreasing the net position as of July 1, 2014 by $9,869,196.

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

Pension Plan	*Collective Net Pension Liability*	*Collective Deferred Outflow of Resources*	*Collective Deferred Inflow of Resources*	*Collective Pension Expense*
STRS	$12,437,917	$3,951,732	$810,282	$1,417,174
PERS	3,164,396	1,031,887	46,167	689,330
Total	$15,602,313	$4,983,619	$856,449	$2,106,504

Source: Hermosa Beach City School District.

For additional information regarding the District's participation in STRS and PERS, see Note 11 to the District's Audited Financial Statements for fiscal year 2017-18 attached as Appendix B hereto.

The District can make no representations regarding the future program liabilities of STRS or PERS, or whether the District will be required to make additional contributions to STRS and PERS in the future above those amounts currently projected as described below.

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. Under this approach, 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 has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State 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 rate increased over a three-year phase-in period in accordance with the schedule set forth in Table 10 below.

Table 10
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	8.15%	8.150%
July 1, 2015	9.20	8.560
July 1, 2016	10.25	9.205
July 1, 2017	10.25	9.205
July 1, 2018	10.25	10.205
July 1, 2019	10.25	10.205

Source: A.B. 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 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 the fiscal year commencing July 1, 2019, the contribution rate for employees hired after the Implementation Date remains at 10.205%.

Pursuant to A.B. 1469, K-14 school districts' contribution rate will increase over a seven year phase in period in accordance with the schedule set forth in Table 11 below:

Table 11
K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS (Defined Benefit Program)

Effective Date	*K-14 school districts*[(1)]
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

(1) Percentage of eligible salary expenditures to be contributed.
Source: A.B. 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, A.B. 1469 also requires the STRS Board to report to the State legislature every five years (commencing with a report due by 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."

The State also contributes to STRS annually with a contribution of 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 1,624 public agencies and 1,366 K-14 school districts. PERS acts as the common investment and administrative agent for the member agencies. The State and 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 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 was 18.062% of eligible salary expenditures for fiscal year 2018-19, and is 19.721% of eligible salary expenditures in fiscal year 2019-20. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which was 7% of their respective salaries in fiscal year 2018-19 and is 7% in fiscal year 2019-20, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 7% in fiscal year 2018-19 and is 7% in 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."

State Pension Trusts. Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California

95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS: www.calpers.ca.gov. However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. Table 12 below summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS (Schools 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 12
FUNDED STATUS
STRS (Defined Benefit Program) and PERS
(Dollar Amounts in Millions)[(1)]
Fiscal Years 2013-14 through 2017-18

	STRS				
Fiscal Year	***Accrued Liability***	***Market 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 (Schools Pool)				
Fiscal Year	***Accrued Liability***	***Market Value of Trust Assets (MVA)[(2)]***	***Unfunded Liability (MVA)[(3)]***	***Value of Trust Assets (AVA)[(4)]***	***Unfunded Liability (AVA)[(4)]***
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	27,225	--[(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) Figures not provided. Effective with the June 30, 2014 valuation, PERS no longer uses an actuarial value 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 salary increases less than assumed and actuarial asset gains recognized from the current and prior years, the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2018 (the "2018 STRS Actuarial Valuation") reports that the unfunded actuarial obligation decreased by $109 million since the June 30, 2017 STRS Actuarial Valuation and the funded ratio increased by 1.4% to 64.0% over such time period.

According to the 2018 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 99.9%, 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% for the June 30, 2017 actuarial valuation, 7.25% for the June 30, 2018 actuarial valuation and 7.00% for the June 30, 2019 actuarial valuation. The new discount rate went into effect July 1, 2017 for the State and 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 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.

On April 16, 2019, the PERS Board established the employer contribution rates for 2019-20 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2018. 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 employer contribution rate for 2020-21 was projected to be 23.6%, with annual increases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26. Based on an additional contribution to PERS in the State's 2019-20 Budget, the employer rate for fiscal year 2019-20 is reduced to 19.7% and for 2020-21 is projected at 22.9%. See "STATE OF CALIFORNIA FISCAL ISSUES—2019-20 State Budget."

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employee's 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 to 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.

Post-employment Benefits

The District provides a single-employer defined post-employment benefit plan (the "OPEB") offering medical, dental and vision insurance benefits for eligible retirees. As of June 30, 2018, the OPEB plan had one retiree and beneficiary receiving benefits and 67 active members. The District recognizes these post-employment health care benefits on a pay-as-you-go basis. The District incurred $6,933 of such expenditures during fiscal year 2017-18 and, based on the 2019 Unaudited Actuals, $9,254 during fiscal year 2018-19.

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 $62,010 for fiscal years 2015-16 and 2016-17. The District contributed $2,985, or 5.1%, of its ARC in fiscal year 2015-16 and $7,450, or 12.2% 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 No. 75, which replaced the requirements under the GASB Statement 45. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (i.e. OPEB). Statement No. 75 is also intended to improve information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. Statement No. 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 No. 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 No. 75 requires the recognition of the total OPEB liability in the Statement of Net Position. As a result of the implementation of GASB Statement No. 75 for fiscal year 2017-18, the District restated its beginning net position (decrease) at July 1, 2017 from $427,918 to $(393,632). See Notes 8 and 14 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto.

The District recognizes the post-employment health care benefits on a pay-as-you-go basis. Based on the District's most recent actuarial report for its OPEB plan as of June 30, 2019, 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	$68,169
Interest Cost	36,070
Changes in Assumptions	20,013
Expected Benefits Payment	(15,260)
Net Change in OPEB Liability	**$108,991**
Total OPEB Liability, Beginning	**1,149,818**
Total OPEB Liability, Ending	**$1,258,810**

Source: District GASB 75 Actuarial Report for fiscal year ended June 30, 2019.

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 No. 75, 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 $102,438 for its proportionate share of the net liability for the MPP Program, measured as of June 30, 2017. See Note 8 to the District's June 30, 2018 Financial Statements set forth in Appendix B hereto.

At June 30, 2018, the District reported a liability of $102,438 for its proportionate share of the net liability for the MPP Program. The net liability for the MPP Program was measured as of June 30, 2016, and the total MPP Program liability used to calculate the net liability was determined by an actuarial valuation as of such date. The District's proportion of the net MPP Program liability was based on a projection of the District's long-term share of contributions to the MPP Program relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0243 percent and 0.0240 percent, resulting in a net decrease in the proportionate share of 0.0003 percent. For the year ended June 30, 2018, the District recognized MPP Program expense of ($9,786).

See Note 8 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. For workers' compensation, the District participates in the Self-Insured Schools of California (SISC) insurance purchase pool. The District obtains property and liability insurance coverage from the Alliance of Schools Cooperative Insurance Program (ASCIP), which arranges for and provides liability and property insurance for its member districts. The District pays premiums commensurate with the level of coverage requested through ASCIP. ASCIP provides excess insurance to the District for claims up to $600,000,000. 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.

ASCIP is established pursuant to the provisions of the California Government Code and has local school districts as participants. Each participating district has one seat and one vote in the board of directors. The ASCIP board controls its operation, including selection of management, and approval of operating budgets, independent of any influence of the member districts beyond their representation on the board. The relationship between the district and ASCIP is such that ASCIP 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 ASCIP.

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.

District Budget

The District is required by provisions of the California Education Code to maintain each fiscal year a balanced budget in which the sum of expenditures plus the ending fund balance from the previous fiscal year cannot exceed the revenues plus the ending fund balance from the previous year. The California State Department of Education (the "Department") 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 State 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 State Superintendent shall either approve or disapprove the revised budget. If the State 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 Education Code 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 State Superintendent may adopt a budget for the school district. The State 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 State 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 Department 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 Department.

Pursuant to State law, the District adopted its fiscal year 2019-20 budget on June 26, 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.

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

Table 13 below reflects the District's historical ADA for fiscal years 2014-15 through 2018-19.

TABLE 13
HERMOSA BEACH CITY SCHOOL DISTRICT
Average Daily Attendance and Revenue Limit
Fiscal Years 2014-15 through 2018-19

Year	*Average Daily Attendance*[(1)]	*Annual Change in ADA*
2014-15	1,385	--
2015-16	1,384	0.0%
2016-17	1,328	(4.0)
2017-18	1,330	0.0
2018-19	1,295	(2.6)

[(1)] Reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.
Source: Hermosa Beach City School District.

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

The primary component of AB 97 is the implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations will be provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. 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 Base Grants per unit of ADA for each grade span are as follows: (i) $6,845 for grades K-3; (ii) $6,947 for grades 4-6; (iii) $7,154 for grades 7-8; and (iv) $8,289 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

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

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

Table 14 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 14
HERMOSA BEACH CITY SCHOOL DISTRICT
ADA, Enrollment and EL/LI Enrollment Percentage
Fiscal Years 2014-15 through 2018-19
Hermosa Beach City School District

	Average Daily Attendance[(1)]				*Enrollment*	
Fiscal Year	*K-3*	*4-6*	*7-8*	*Total ADA*	*Total Enrollment*[(2)]	*% of EL/LI Enrollment*[(2)]
2014-15	624	483	318	1,424	1,459	2.19%
2015-16	561	464	359	1,384	1,432	2.72
2016-17	536	453	339	1,328	1,378	1.30
2017-18	535	455	341	1,330	1,361	1.60
2018-19	544	443	308	1,295	1,346	1.70

(1) Reflects P-2 ADA.
(2) As of October report submitted to the California Basic Educational Data System (CBEDS). For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students will be expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment 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: Hermosa Beach City School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The District qualified for the ERT add-on.

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 schools 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 was required to develop rubrics to assess school district performance and the need for support and intervention on or before October 1, 2015.

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 Educational Consolidation and Improvement Act. In addition, a small part of a school district's budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.

Historical General Fund Financial Information

Table 15 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 15 below for fiscal years 2013-14 through 2017-18 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 15
HERMOSA BEACH CITY SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

	2013-14[(1)]	*2014-15*	*2015-16*	*2016-17*	*2017-18*
Revenues:					
General Revenues:					
LCFF Sources	$ 8,357,073	$ 9,177,114	$ 10,015,017	$ 10,181,193	$ 9,862,727
Federal Sources	313,856	335,721	300,434	261,294	224,496
Other State Sources	1,336,237	1,199,292	2,096,384	1,672,635	1,804,609
Other Local Sources	1,995,296	2,015,777	1,819,731	1,699,593	1,598,742
Total Revenues	$ 12,002,462	$ 12,727,904	$ 14,231,566	$ 13,814,715	$ 13,490,574
Expenditures:					
Instruction	$ 7,930,535	$ 8,413,135	$ 9,099,831	$ 9,366,169	$ 9,264,325
Instruction-Related Services					
Supervision of Instruction	3,794	5,900	5,613	159,518	173,850
Instruction Library, Media and Technology	205,912	231,284	375,539	541,108	176,352
School Site Administration	438,073	478,287	662,735	717,768	716,100
Pupil Services:					
Home-to-School Transportation	13,621	13,807	17,414	18,214	25,396
All Other Pupil Services	542,382	682,196	790,543	827,048	753,239
General Administration:					
Data Processing[(2)]	10,662	9,046	8,105	40,196	99,058
All Other General Administration	770,102	740,542	851,642	958,479	1,423,797
Plant Services	924,739	1,050,807	1,083,830	1,166,950	1,132,846
Community Services	88,868	95,852	86,144	112,349	147,506
Other Outgo	168,799	146,584	105,779	102,037	61,197
Total Expenditures	$ 11,097,487	$ 11,867,440	$ 13,087,175	$ 14,009,836	$ 13,973,636
Excess of (Deficiency) of Revenues Over (Under) Expenditures	$ 904,975	$ 860,464	$ 1,144,391	$ (192,121)	$ (483,062)
Net Change in Fund Balance	$ 904,975	$ 860,464	$ 1,144,391	$ (195,121)	$ (483,062)
Fund Balance, July 1	$ 1,690,070	$ 2,595,045	$ 3,455,509	$ 4,599,900	$ 4,404,779
Fund Balance, June 30	$ 2,595,045	$ 3,455,509	$ 4,599,900	$ 4,404,779	$ 3,921,717

(1) In accordance with GASB 54, includes the financial activity of the Deferred Maintenance Fund. Beginning in fiscal year 2013-14, the District terminated its Deferred Maintenance Fund and consolidated it into its General Fund.

(2) Increases in fiscal years 2016-17 and 2017-18 as a result of increases in payroll expenses.

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

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Table 16 below compares the District's General Fund Adopted Budget (GAAP Basis) to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2016-17 and its General Fund Adopted Budget to its General Fund actual revenues and expenditures (GAAP Basis) for fiscal year 2017-18.

Table 16
HERMOSA BEACH 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	$ 10,182,331	$ 10,181,193	$ 10,034,555	$ 9,862,727
Federal	259,912	261,294	257,411	224,496
Other State	752,040	1,672,635	770,071	1,804,609
Other Local	1,615,903	1,699,593	1,421,903	1,598,742
Total Revenues	$ 12,810,186	$ 13,814,715	$ 12,483,940	$ 13,490,574
Expenditures				
Certificated Salaries	$ 6,782,425	$ 6,982,471	$ 6,770,605	$ 6,667,219
Classified Salaries	1,907,778	1,902,125	2,040,582	1,926,177
Employee Benefits	2,327,756	2,738,397	2,500,625	2,915,884
Books and Supplies	463,825	351,071	300,375	319,093
Services and Other Operating Expenditures	1,858,717	1,578,230	1,559,230	2,013,499
Capital Outlay	114,000	102,037	137,000	61,197
Other Outgo/Excluding Transfers of Indirect Costs	95,651	355,505	80,000	70,567
Total Expenditures	$ 13,550,152	$ 14,009,836	$ 13,388,417	$ 13,973,636
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (739,966)	$ (195,121)	$ (904,477)	$ (483,062)
Fund Balances, July 1	4,599,900	4,599,900	4,404,779	4,404,779
Fund Balances, June 30	$ 3,859,934	$ 4,404,779	$ 3,500,302	$ 3,921,717

Source: Hermosa Beach City 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 17 below sets forth the District's General Fund balance sheet for the 2013-14 through 2017-18 fiscal years.

Table 17
HERMOSA BEACH CITY SCHOOL DISTRICT
Summary of Combined General Fund Balance Sheet

	Audited 2013-14	*Audited 2014-15*	*Audited 2015-16*	*Audited 2016-17*	*Audited 2017-18*
Assets					
Deposits and Investments	$ 3,362,208	$ 4,470,509	$ 5,332,800	$ 5,080,101	$ 4,709,095
Receivables	1,192,317	263,739	529,412	576,454	603,544
Other	32,830	-	-	-	1,261
Total Assets	$ 4,587,355	$ 4,734,248	$ 5,862,212	$ 5,656,555	$ 5,313,900
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	$ 1,972,159	$ 1,278,739	$ 1,262,312	$ 1,251,776	$ 1,392,183
Deferred Revenue	20,151	-	-	-	-
Total Liabilities	$ 1,992,310	$ 1,278,739	$ 1,262,312	$ 1,251,776	$ 1,392,183
Fund Balances					
Nonspendable	$ 500	$ 500	$ 500	$ 500	$ 500
Restricted	182,162	142,315	143,979	78,489	316,545
Assigned	227,507	362,981	1,070,600	1,286,629	855,929
Unassigned	2,184,876	2,949,713	3,384,821	3,039,161	2,748,743
Total Fund Balances	$ 2,595,045	$ 3,455,509	$ 4,599,900	$ 4,404,779	$ 3,921,717
Total Liabilities and Fund Balances	$ 4,587,355	$ 4,734,248	$ 5,862,212	$ 5,656,555	$ 5,313,900

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

Current Financial Condition

The District's financial condition is closely linked to the finances of the State. Until fiscal year 2012-13, the State had experienced an ongoing structural budget deficit for several years. Although the State 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 18 below contains the difference between the District's adopted General Fund budgets for fiscal year 2018-19 and fiscal year 2019-20 and the fiscal year 2018-19 adopted General Fund budget and the 2019 Unaudited Actuals.

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Table 18
HERMOSA BEACH CITY SCHOOL DISTRICT
Comparison of 2018-19 Adopted General Fund Budget
to 2019-20 Adopted General Fund Budget; Unaudited Actual Results for Fiscal Year 2018-19

	Fiscal Year 2018-19 Adopted Budget	*Fiscal Year 2019-20 Adopted Budget*	*Difference Between 2018-19 Budget and 2019-20 Budget*	*Unaudited Actual Results for 2018-19*	*Difference Between 2018-19 Adopted Budget and Unaudited Actual Results for 2018-19*
SOURCES					
LCFF Sources	$ 10,384,695	$ 10,672,809	$ 288,114	$ 10,572,894	$ 188,199
Federal Revenues	237,473	258,650	21,177	260,232	22,759
Other State Revenues	1,183,135	791,124	(392,011)	1,197,106	13,971
Other Local Revenue	1,452,903	1,879,444	426,541	1,761,934	309,031
Total Revenues	$ 13,258,206	$ 13,604,027	$ 345,821	$ 13,792,166	$ 533,960
EXPENDITURES					
Certificated Salaries	$ 6,593,672	$ 6,913,193	$ 319,521	$ 7,009,049	$ 415,377
Classified Salaries	2,181,961	2,139,797	(42,164)	2,127,667	(54,294)
Employee Benefits	2,687,840	2,910,179	222,339	2,566,303	(121,537)
Books and Supplies	315,322	455,758	140,436	299,366	(15,956)
Services & Operating Expenditures	1,690,923	1,551,656	(139,267)	1,406,474	(284,449)
Capital Outlay	54,000	296,436	242,436	240,354	(186,354)
Direct Support/Indirect Costs/Other Outgo	45,000	132,165	87,165	131,109	86,109
Total Expenditures	$ 13,568,719	$ 14,399,174	$ 830,455	$ 13,780,322	$ 211,603
Excess of Revenues over (Under) Expenditures	$ (310,513)	$ (797,147)	$ (486,634)	$ 11,844	$ 322,357
Fund Balance (Deficit), July 1[1]	3,428,716	3,699,319	270,603	3,298,841	$ (129,875)
Fund Balance (Deficit), June 30[1]	$ 3,118,204	$ 2,902,172	$ (216,032)	$ 3,940,685	$ 822,481

[1] Fiscal year 2018-19 beginning fund balance set forth in the 2019 Unaudited Actuals includes a restatement of $7,124 of property taxes for fiscal year 2017-18 remitted by the County subsequent to the end of fiscal year 2017-18. Such restatement of the beginning fund balance is expected to be included in the District's audited financial statements for fiscal year 2018-19.

[2] The District expects a decrease of approximately $55,000 to its General Fund in its fiscal year 2018-19 audit as a result of refunded capital project-related legal costs which will be transferred to the District's Building Fund.

Source: Hermosa Beach City School District Annual Budget Report for fiscal year 2018-19, adopted budget for fiscal year 2019-20 and the 2019 Unaudited Actuals.

In the fiscal year 2019-20 adopted budget, the District projects that General Fund expenditures will exceed revenues by approximately $797,147 in fiscal year 2019-20, and that General Fund revenues will exceed expenditures by $52,916 and $32,632 in fiscal years 2020-21 and 2021-22, respectively. In the aggregate, the District projects that General Fund expenditures will exceed revenues by approximately $0.7 million through June 30, 2022 leaving a projected General Fund balance of $2,987,720 as of that date. The fiscal year 2019-20 adopted budget assumes decreases in ADA of 16, 43 and 32 students in fiscal years 2019-20, 2020-21 and 2021-22, respectively. These projections do not include any amount for increases in salaries and benefits that might be negotiated with the District's labor groups. Any agreed upon increases could result in a smaller General Fund ending balance than is currently projected.

State law requires the District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the fiscal year 2019-20 adopted budget, the District projects available reserves of 11.74% in fiscal year 2019-20, 12.64% in fiscal year 2020-21 and 12.82% 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—2019-20 State Budget—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several fiscal years prior to fiscal year 2013-14, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the District applies a modified accrual method of accounting and, accordingly, Tables 15 through 18 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 pursuant to the LCFF; (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

State Apportionment Funding

For fiscal years 2016-17, 2017-18 and 2018-19 (based on 2019 Unaudited Actuals), the District received $10,181,193 and $9,862,727 and $10,572,894, respectively, from LCFF sources, representing approximately 73.7%, 73.1% and 76.7%, respectively, of its General Fund revenues. The District has budgeted LCFF sources of $10,672,809 in fiscal year 2019-20, representing approximately 78.5% of budgeted General Fund revenues.

Federal Revenues

The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, all of which are restricted, comprised approximately 1.8% of General Fund revenues in each of fiscal years 2016-17, 2017-18 and 2018-19 (based on 2019 Unaudited Actuals). The District has budgeted federal revenues of $258,650 in fiscal year 2019-20, representing approximately 1.9% of budgeted General Fund revenues.

Other State Sources

In addition to State apportionment funding pursuant to the LCFF, the District receives other State revenues ("Other State Sources"). In fiscal years 2016-17, 2017-18 and 2018-19 (based on 2019 Unaudited Actuals), Other State Sources equaled approximately 12.1%, 13.4% and 8.7%, respectively, of total General Fund revenues. The District has budgeted General Fund revenues from Other State Sources of $791,124 in fiscal year 2019-20, representing approximately 5.8% of budgeted 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, contributions from a local educational foundation established to support the District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 12.3%, 11.9% and 12.8% of the total General Fund revenues in fiscal years 2016-17, 2017-18 and 2018-19 (based on 2019 Unaudited Actuals), respectively. The District has budgeted General Fund revenues from Other Local Sources of $1,879,444 in fiscal year 2019-20, representing approximately 13.8% of budgeted General Fund revenues.

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 Special Reserve Fund for Capital Outlay to act as a reserve for Board of Education designated construction projects.

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 $2.97 per square foot of habitable space on domestic housing developments. The current developer fee on commercial/industrial developments is $0.47 per square foot. As of June 30, 2018, a balance of $439,932 existed in the District's Capital Facilities Fund and there was a balance of $476,641 in the Special Reserve Fund for Capital Outlay. Based on the 2019 Unaudited Actuals, a balance of $625,147 existed in the District's Capital Facilities Fund and there was a balance of $482,781 in the Special Reserve Fund for Capital Outlay. Except for amounts in the Special Reserve Fund for Capital Outlay, which may be expended on one-time non-capital costs other than salaries and benefits, the amounts in these funds are restricted to pay for capital improvements.

Table 19 below sets forth the District's developer fee collections for fiscal years 2014-15 through 2018-19.

Table 19
HERMOSA BEACH CITY SCHOOL DISTRICT
Developer Fee Collections

Fiscal Year	*Developer Fees Collected*
2014-15	$194,717
2015-16	233,552
2016-17	184,241
2017-18	121,556
2018-19(1)	184,233

(1) Based on 2019 Unaudited Actuals.
Source: Hermosa Beach City School District.

DISTRICT DEBT STRUCTURE

Long-Term Debt

As of June 30, 2018, the District had $36,820,109 of long-term debt outstanding, of which $34,567,934 were general obligation bonds. The District has not issued any additional general obligation bonds since that date; however, the amount outstanding will increase with the issuance of the Series B Bonds.

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

Table 20
HERMOSA BEACH CITY 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	$ 34,567,585	$ 450,615	$ 450,266	$ 34,567,934	$ 1,291,758
General obligation bond premium	959,679	--	34,757	924,922	
Accumulated vacation - net	74,290	707	--	74,997	--
Net OPEB Obligation	1,156,593	105,449	9,786	1,252,256	--
Total	$ 36,758,147	$ 556,771	$ 494,809	$ 36,820,109	$ 1,291,758

Source: Hermosa Beach City School 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 21 below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement.

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

Table 21
HERMOSA BEACH CITY SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Hermosa Beach City School District
As of July 1, 2019

2018-19 Assessed Valuation: $7,540,414,646

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/19
Metropolitan Water District	0.259%	$ 124,450
El Camino Community College District	6.791	28,535,789
Hermosa Beach City School District	**100.000**	**29,126,749**[1]
City of Hermosa Beach 1915 Act Bonds	100.000	170,000
Los Angeles County Regional Park and Open Space Assessment District	0.497	67,691
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$58,024,679
OVERLAPPING GENERAL FUND DEBT:		
Los Angeles County General Fund Obligations	0.497%	$10,703,897
Los Angeles County Superintendent of Schools Certificates of Participation	0.497	28,965
Los Angeles County Sanitation District South Bay Cities Authority	17.095	411,753
City of Hermosa Beach General Fund Obligations	100.000	10,370,000
TOTAL OVERLAPPING GENERAL FUND DEBT		$21,514,615
COMBINED TOTAL DEBT		$79,539,294[2]

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($29,126,749) 0.39%
Total Direct Overlapping Tax and Assessment Debt........ 0.77%
Combined Total Debt... 1.05%

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

Article XIIIA

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

Split Roll Initiative

An initiative measure (the "Split Roll Initiative") to amend Article XIIIA has qualified for the State's November 2020 ballot. If adopted, the Split Roll Initiative would base property taxes for commercial and industrial properties on market values beginning in tax year 2020-21. Such market values would be reassessed by the applicable county assessor's office at least once every three years. The Split Roll Initiative includes exceptions for businesses with a total market value of less than $2 million (adjusted for inflation), which would continue to be subject to property taxes based on purchase price, and exempts from property tax assessments up to $500,000 of the value of personal property, or all personal property for businesses with fewer than 50 employees. There can be no assurance that the Split Roll Initiative will be adopted. Moreover, if the Split Roll Initiative is adopted, the District is unable to predict how it would affect the relationship of the assessed value between land use types (i.e. residential versus commercial) in the District.

Unitary Property

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

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

Article XIIIB

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

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

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

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

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

Articles XIIIC and XIIID

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

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

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

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

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

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

Proposition 46

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

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness 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 Series B 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 and Proposition 55

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

The California Children's Education and Health Care Protection Act of 2016 (also known as "Proposition 55") is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. 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 temporary 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 K-12 school districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing 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, alters the reserve requirements imposed by SB 858. Under SB 751, 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, such as the District.

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.

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 State budget, creates new disclosure requirements effective beginning fiscal year 2015-16 for school districts that have general fund reserves in excess of the State minimum. Existing minimum reserve levels vary between one to five percent of general fund expenditures, depending on the size of the district, and generally require higher reserves for smaller school districts. SB 858 requires school districts to identify amounts in excess of their required reserves and explain the need for higher levels. This information must be disclosed at a public meeting and in each budget submitted to a county office of education. The LAO indicates that available data shows that virtually all school districts maintain excess reserves. As a result of the passage of Proposition 2 (discussed above), certain additional provisions of SB 858 have gone into effect that will cap school district reserve levels. Reserves may 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 SB 858, 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.

LEGAL MATTERS

Tax Matters

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

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

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

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

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

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

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

Series B Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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

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

Legality for Investment in California

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

No Litigation

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

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

CONTINUING DISCLOSURE

In connection with the issuance of the Series B Bonds, the District will covenant for the benefit of the Purchaser (defined below), the bondholders and the Beneficial Owners of the Series B Bonds to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than the last day of the ninth month (currently March 31) 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. These covenants are being made in order to assist the Purchaser in complying with the Rule.

Based on a review of its compliance in the last five years with previous undertakings under the Rule, the District notes that it filed the annual report for all of the District's outstanding bonds for fiscal year 2017-18 approximately 20 days after the date on which such report was due. In each other year within the last five years the District has caused its annual report required under its previous undertakings under the Rule to be filed on a timely basis.

MISCELLANEOUS

Rating

S&P Global Ratings, a Standard & Poor's Financial Services LLC Business ("S&P") has assigned the rating of "AA" to the Series B Bonds. The rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from S&P. 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 Series B 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 Series B Bonds.

Underwriting

The Series B Bonds were sold by competitive bid on October 9, 2019 and awarded by the District on that day to Raymond James & Associates, Inc. (the "Purchaser") as the successful bidder, in accordance with the Official Notice of Terms of Sale. The Purchaser has agreed to purchase the Series B Bonds at the initial purchase price of $23,736,603.30 (which represents the aggregate principal amount of the Series B Bonds, plus net original issue premium of $987,303.30, less Purchaser's discount of $250,700.00). The Official Notice of Terms of Sale provides that the Purchaser will purchase all of the Series B Bonds. The obligation to make such purchase is subject to certain terms and conditions set forth in the Official Notice of Terms of Sale.

Audited Financial Statements

The District's financial statements for fiscal year 2017-18 included in this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, Rancho Cucamonga, 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 10, 2018. See Appendix B—"DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS" herein.

Financial Interests

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

ADDITIONAL INFORMATION

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

Any Bond Owner may obtain copies of reports relating to the Series B Bonds, as available, from the District at 425 Valley Drive, Hermosa Beach, California 90254. The District may impose a charge for copying, mailing and handling.

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

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

HERMOSA BEACH CITY SCHOOL DISTRICT

By: /s/ Patricia Escalante
Superintendent

APPENDIX A

FORM OF OPINION OF BOND COUNSEL FOR THE SERIES B BONDS

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

[Closing Date]

Honorable Members of the Board of Education
Hermosa Beach City School District
Hermosa Beach, California

Re: $23,000,000 Hermosa Beach City School District (Los Angeles County, California) Election of 2016 General Obligation Bonds, Series B

Dear Honorable Members of the Board of Education:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Hermosa Beach City School District (the "District") taken in connection with the authorization and issuance of the District's Election of 2016 General Obligation Bonds Series B, in the aggregate principal amount of $23,000,000 (the "Bonds"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County of Los Angeles (the "County"), the District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued by the District pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, a vote of the qualified electors of the District voting at an election held on June 7, 2016 and pursuant to a resolution adopted by the Board of Education of the District on September 11, 2019 (the "Bond Resolution"), and a resolution adopted by the Board of Supervisors of the County on October 1, 2019.

The Bonds mature on the dates and in the amounts authorized in the Bond Resolution. The Bonds are dated their date of delivery and bear interest payable semiannually on each February 1 and August 1, commencing February 1, 2020, at the rates per annum authorized in the Bond Resolution. The Bonds are registered bonds as set forth in the Bond Resolution.

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

(1) The Bonds have been duly and validly authorized and constitute legal, valid and binding obligations of the District enforceable in accordance with the terms of the Bond Resolution. The Bonds are obligations of the District but are not a debt of the County, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the County, the State of California, or any such political subdivisions is pledged for the payment thereof.

(2) The Bond Resolution has been duly adopted by the Board of Education of the District and constitutes the legal, valid and binding obligation of the District. The Bond Resolution is enforceable in

accordance with its terms, provided, however, we express no opinion as to the enforceability of provisions of the Bond Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

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

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

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

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

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

We call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California.

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

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

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

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

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

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

Respectfully submitted,

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APPENDIX B

DISTRICT'S 2017-18 AUDITED FINANCIAL STATEMENTS

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HERMOSA BEACH CITY SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HERMOSA BEACH CITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Hermosa Beach City School District
Hermosa Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hermosa Beach City School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 61, schedule of changes in the District's total OPEB liability and related ratios on page 62, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 63, schedule of the District's proportionate share of the net pension liability on page 64, and the schedule of District contributions on page 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP.

Rancho Cucamonga, California
December 10, 2018

HERMOSA BEACH CITY SCHOOL DISTRICT

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Hermosa Beach, CA 90254
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This section of Hermosa Beach City School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Hermosa Beach City School District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

Governmental Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Fiduciary Funds* are agency funds and are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Hermosa Beach City School District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The Hermosa Beach City community continues its fundraising efforts for the District's budget shortfall. This fundraising enables the District to continue valuable educational programs. Hermosa Beach Educators' Foundation and the Hermosa Valley/View Parent Teacher Organization (PTO) held numerous funding raising efforts for school programs.

Local Control Funding Formula (LCFF) is its fourth year as the funding base for California public schools, K-12. Below is 2017-2018 LCFF funding information.

The LCFF includes the following base and augmentation funding components for K-12 School Districts:

BASE AND AUGMENTATION GRANT:				
Grade Span	**Prior Year Base Grant Rate**	**2017-2018 COLA 1.56%**	**2017-2018 Adjustment**	**2017-2018 Base Grant Rate**
K-3	$ 7,083	$ 110	$ 748	$ 7,941
4-6	$ 7,189	$ 112		$ 7,301
7-8	$ 7,403	$ 115		$ 7,518
9-12	$ 8,578	$ 134	$ 227	$ 8,939

The Local Control Accountability Plan (LCAP) is in its fifth year of operation. As part of the LCFF, school districts, COEs, and charter schools are required to develop, adopt, and annually update a three-year LCAP.

Accountability components include:

- The SBE must adopt regulations that govern the expenditure of the supplemental and concentration grant funding. These regulations will require school districts, COEs, and charter schools "to increase and improve" services for targeted students and will provide authority for school districts to spend funds "school-wide" when significant populations of those students attend a school.

- LEAs must obtain parent and public input in developing, revising, and updating LCAPs.

- County superintendents must review school district LCAPs and ensure alignment of projected spending, services, and goals. Charter school LCAPs will be reviewed by the chartering authority. COEs are required to provide technical assistance when they disapprove an LCAP.

- The State Superintendent of Public Instruction must review LCAPs of COEs, as well as intervene if a school district or charter school fails to show improvement across multiple subgroups in three out of four consecutive years.

Enrollment decreased less than one percent this year from 1,363 students in September 2017 to 1,357 students in June 2018. As of November 9, 2018, enrollment is 1,346, less than one percent decline since June 2018.

The Community of Hermosa Beach passed a $59 million General Obligation Bond, Measure S for new construction and modernization projects at North School, Hermosa View School, Hermosa Valley School and the District Office. In November 2016, the District sold $25 million in general obligation bonds. A Citizens' Oversight Committee was created. Architectural plans for North School was submitted to the Department of State Architects for approval in January 2018. Architectural plans for Hermosa View School are in the developmental phase for modernization and new construction projects. Bids were awarded in June 2018 and July 2018 to complete modernization projects at Hermosa Valley School during the Summer of 2018.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds **-** Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in the *Statement of Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $(870,743) for the fiscal year ended June 30, 2018. Of this amount, $(12,416,507) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	(as restated) 2017
Assets		
Current and other assets	$ 30,005,257	$ 32,684,362
Capital assets, net	19,371,850	16,614,401
Total Assets	49,377,107	49,298,763
Deferred Outflows of Resources	4,997,192	3,565,734
Liabilities		
Current liabilities	1,966,171	2,329,335
Long-term obligations	36,820,109	36,758,147
Aggregate net pension liability	15,602,313	13,537,276
Total Liabilities	54,388,593	52,624,758
Deferred Inflows of Resources	856,449	633,371
Net Position		
Net investment in capital assets	9,000,842	8,993,897
Restricted	2,544,922	1,005,955
Unrestricted	(12,416,507)	(10,393,484)
Total Net Position	$ (870,743)	$ (393,632)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 211,498	$ 203,614
Operating grants and contributions	776,761	826,006
General revenues:		
Federal and State	5,418,740	6,135,987
Property taxes	7,744,208	5,659,673
Other general revenues	4,318,011	3,469,266
Total Revenues	18,469,218	16,294,546
Expenses		
Instruction	11,126,008	10,105,378
Instruction-related activities	1,297,321	1,482,458
Pupil services	1,219,182	1,162,915
Administration	1,742,453	1,034,322
Plant services	1,779,336	1,619,099
All other services	1,782,029	2,874,658
Total Expenses	18,946,329	18,278,830
Change in Net Position	$ (477,111)	$ (1,984,284)

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was $18,946,329. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $7,744,208 because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions.

In Table 3, we have presented the cost of each of the District's largest functions: instruction including, instruction-related activities, pupil services, administration, plant services, and all other services, as well as each program's *net cost* (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	$ 11,126,008	$ 10,616,280	$ 10,105,378	$ 9,566,726
Instruction-related activities	1,297,321	1,291,461	1,482,458	1,476,186
Pupil services	1,219,182	746,511	1,162,915	678,219
Administration	1,742,453	1,742,453	1,034,322	1,034,322
Plant services	1,779,336	1,779,336	1,619,099	1,619,099
All other services	1,782,029	1,782,029	2,874,658	2,874,658
Total	$ 18,946,329	$ 17,958,070	$ 18,278,830	$ 17,249,210

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $28,469,305, which is a decrease of $2,803,219 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	$ 4,404,779	$ 13,490,574	$ 13,973,636	$ 3,921,717
Building Fund	24,207,946	352,354	3,587,881	20,972,419
Cafeteria Fund	119,780	248,254	240,961	127,073
Capital Facilities Fund	337,743	157,669	55,480	439,932
Special Reserve Fund for Capital Outlay Projects	477,093	7,455	7,907	476,641
Bond Interest and Redemption Fund	1,725,183	2,873,865	2,067,525	2,531,523
Total	$ 31,272,524	$ 17,130,171	$ 19,933,390	$ 28,469,305

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 61.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $19,371,850 in a broad range of capital assets (net of depreciation), including land, construction in progress, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $2,757,449, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	$ 2,202,679	$ 621,936
Buildings and improvements, net	17,080,915	15,903,974
Furniture and equipment, net	88,256	88,491
Total	$ 19,371,850	$ 16,614,401

We present more detailed information regarding our capital assets in Note 6 of the financial statements.

Long-Term Obligations

At the end of this year, the District had $34,567,934 in bonds outstanding versus $34,567,585 last year, an increase of $349.

Table 6

	Governmental Activities	
	2018	(as restated) 2017
General obligation bonds (Financed with property taxes)	$ 34,567,934	$ 34,567,585
General obligation premium	924,922	959,679
Accumulated vacation, net	74,997	74,290
Aggregate net other postemployment benefits liability	1,252,256	1,156,593
Total	$ 36,820,109	$ 36,758,147

We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District has a pension liability of $15,602,313.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Manager, at Hermosa Beach City School District, 1645 Valley Drive, Hermosa Beach, California, 90254.

HERMOSA BEACH CITY SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 29,204,402
Receivables	800,855
Total Current Assets	30,005,257
Capital Assets	
Land and construction in process	2,202,679
Other capital assets	24,407,912
Less: Accumulated depreciation	(7,238,741)
Total Capital Assets	19,371,850
Total Assets	49,377,107
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	4,983,619
Deferred outflows of resources related to OPEB	13,573
Total Deferred Outflows of Resources	4,997,192
LIABILITIES	
Accounts payable	1,535,952
Accrued interest payable	430,219
Long-Term Obligations	
Current portion of long-term obligations other than pensions	1,291,758
Noncurrent portion of long-term obligations other than pensions	35,528,351
Total Long-Term Obligations	36,820,109
Aggregate net pension liability	15,602,313
Total Liabilities	54,388,593
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	856,449
NET POSITION	
Net investment in capital assets	9,000,842
Restricted for:	
Debt service	2,101,304
Educational programs	316,545
Other activities	127,073
Unrestricted	(12,416,507)
Total Net Position	$ (870,743)

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

HERMOSA BEACH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	$ 11,126,008	$ -	$ 509,728	$ (10,616,280)
Instruction-related activities:				
Supervision of instruction	216,265	-	5,860	(210,405)
Instructional library, media and technology	199,834	-	-	(199,834)
School site administration	881,222	-	-	(881,222)
Pupil services:				
Home-to-school transportation	26,123	-	4,663	(21,460)
Food services	259,757	211,498	36,756	(11,503)
All other pupil services	933,302	-	219,754	(713,548)
General administration:				
Data processing	169,075	-	-	(169,075)
All other general administration	1,573,378	-	-	(1,573,378)
Plant services	1,779,336	-	-	(1,779,336)
Community services	174,993	-	-	(174,993)
Interest on long-term obligations	1,545,839	-	-	(1,545,839)
Other outgo	61,197	-	-	(61,197)
Total Governmental Activities	$ 18,946,329	$ 211,498	$ 776,761	(17,958,070)

General revenues and subventions:	
Property taxes, levied for general purposes	4,886,084
Property taxes, levied for debt service	2,856,092
Taxes levied for other specific purposes	2,032
Federal and State aid not restricted to specific purposes	5,418,740
Interest and investment earnings	453,276
Miscellaneous	3,864,735
Subtotal, General Revenues and Subventions	17,480,959
Change in Net Position	(477,111)
Net Position - Beginning, as Restated	(393,632)
Net Position - Ending	$ (870,743)

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

HERMOSA BEACH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	$ 4,709,095	$ 20,991,299	$ 2,531,523
Receivables	603,544	117,440	-
Due from other funds	1,261	-	-
Total Assets	$ 5,313,900	$ 21,108,739	$ 2,531,523
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,392,183	$ 135,059	$ -
Due to other funds	-	1,261	-
Total Liabilities	1,392,183	136,320	-
Fund Balances:			
Nonspendable	500	-	-
Restricted	316,545	20,972,419	2,531,523
Assigned	855,929	-	-
Unassigned	2,748,743	-	-
Total Fund Balances	3,921,717	20,972,419	2,531,523
Total Liabilities and Fund Balances	$ 5,313,900	$ 21,108,739	$ 2,531,523

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

Non-Major Governmental Funds	Total Governmental Funds
$ 972,485	$ 29,204,402
79,871	800,855
-	1,261
$ 1,052,356	$ 30,006,518
$ 8,710	$ 1,535,952
-	1,261
8,710	1,537,213
-	500
567,005	24,387,492
476,641	1,332,570
-	2,748,743
1,043,646	28,469,305
$ 1,052,356	$ 30,006,518

HERMOSA BEACH CITY SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		$ 28,469,305
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 26,610,591	
Accumulated depreciation is	(7,238,741)	
Total Net Capital Assets		19,371,850
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(430,219)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pension at year-end consist of:		
Pension contributions subsequent to measurement date	1,236,274	
Net change in proportionate share of net pension liability	712,035	
Differences between projected and actual earnings on pension plan investments	109,466	
Differences between expected and actual experience in the measurement of the total pension liability	159,365	
Changes of assumptions	2,766,479	
Total Deferred Outflows of Resources Related to Pensions		4,983,619
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(270,998)	
Differences between projected and actual earnings on pension plan investments	(331,256)	
Differences between expected and actual experience in the measurement of the total pension liability	(216,938)	
Changes of assumptions	(37,257)	
Total Deferred Inflows of Resources Related to Pensions		(856,449)

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

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

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions.		$ 13,573
Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(15,602,313)
Long-term obligations at year-end consist of:		
General obligation bonds	$ (30,418,505)	
General obligation premium	(924,922)	
Accumulated vacation	(74,997)	
Aggregate net OPEB liability	(1,252,256)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is:	(4,149,429)	
Total Long-Term Obligations		(36,820,109)
Total Net Position - Governmental Activities		$ (870,743)

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

HERMOSA BEACH CITY SCHOOL DISTRICT

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

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Local Control Funding Formula	$ 9,862,727	$ -	$ -
Federal sources	224,496	-	-
Other State sources	1,804,609	-	8,780
Other local sources	1,598,742	352,354	2,865,085
Total Revenues	13,490,574	352,354	2,873,865
EXPENDITURES			
Current			
Instruction	9,264,325	-	-
Instruction-related activities:			
Supervision of instruction	173,850	-	-
Instructional library, media, and technology	176,352	-	-
School site administration	716,100	-	-
Pupil services:			
Home-to-school transportation	25,396	-	-
Food services	-	-	-
All other pupil services	753,239	-	-
General administration:			
Data processing	99,058	-	-
All other general administration	1,423,767	-	-
Plant services	1,132,846	1,261	-
Community services	147,506	-	-
Other outgo	61,197	-	-
Facility acquisition and construction	-	3,586,620	-
Debt service			
Principal	-	-	450,266
Interest and other	-	-	1,617,259
Total Expenditures	13,973,636	3,587,881	2,067,525
NET CHANGE IN FUND BALANCES	(483,062)	(3,235,527)	806,340
Fund Balances - Beginning	4,404,779	24,207,946	1,725,183
Fund Balances - Ending	$ 3,921,717	$ 20,972,419	$ 2,531,523

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 9,862,727
33,603	258,099
942	1,814,331
378,833	5,195,014
413,378	17,130,171
-	9,264,325
-	173,850
-	176,352
-	716,100
-	25,396
240,961	240,961
-	753,239
-	99,058
-	1,423,767
-	1,134,107
-	147,506
-	61,197
63,387	3,650,007
-	450,266
-	1,617,259
304,348	19,933,390
109,030	(2,803,219)
934,616	31,272,524
$ 1,043,646	$ 28,469,305

HERMOSA BEACH CITY 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

Total Net Change in Fund Balances - Governmental Funds		$ (2,803,219)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlay	$ 3,241,155	
Depreciation	(483,706)	
Net Expense Adjustment		2,757,449
In the Statement of Activities, accumulated vacation is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than amounts used by $707.		(707)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows, and net pension liability during the year.		(870,230)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and aggregate net OPEB liability during the year.		(82,090)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		450,266
Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium		34,757

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

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

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by $487,278 and second, $450,615 of additional accumulated interest was accreted on the District's 'capital appreciation' general obligation bonds.	$	36,663
Change in Net Position of Governmental Activities	$	(477,111)

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

HERMOSA BEACH CITY SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

		Agency Funds
ASSETS		
Deposits and investments	$	(15,708)
LIABILITIES		
Due to student groups	$	141,497
Due to employees		(157,205)
Total Liabilities	$	(15,708)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hermosa Beach City School District (the District) was organized under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. This District operates two school sites, Hermosa View School (Kindergarten through third grade) and Valley School (fourth through eighth grade).

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for associated student body (ASB) activities and voluntary payroll withholdings of the District employees.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

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

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

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

Investments

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 governmental funds.

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

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $2,544,922 of restricted net position.

Estimates

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

Property Tax

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

Change in Accounting Principles

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

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

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

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	$ 29,204,402
Fiduciary funds	(15,708) *
Total Deposits and Investments	$ 29,188,694

* The District Voluntary Payroll Withholdings Fund ended the year with a deficit cash in county balance of $157,205.

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

Cash on hand and in banks	$ 141,497
Cash in revolving	500
Investments	29,046,697
Total Deposits and Investments	$ 29,188,694

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001).

The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Los Angeles County Investment Pool and by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment of $29,046,697 with the Los Angeles County Investment Pool that has an average weighted maturity of 609 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Los Angeles County Investment Pool is not required to be rated, nor has it been rated as of June 30, 2018.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District had a balance of $9,189 exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Investment Type	Fair Value	Uncategorized
Los Angeles County Investment Pool	$ 28,812,699	$ 28,812,699

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

NOTE 4 - RECEIVABLES

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	$ 203,071	$ -	$ 10,126	$ 213,197
State Government				
Categorical aid	159,757	-	287	160,044
Lottery	59,751	-	-	59,751
Local Government				
Interest	20,646	117,440	4,650	142,736
Other Local Sources	160,319	-	64,808	225,127
Total	$ 603,544	$ 117,440	$ 79,871	$ 800,855

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

A balance of $1,261 is due to the General Fund from the Building Fund for capital outlay.

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 206,087	$ -	$ -	$ 206,087
Construction in process	415,849	3,225,755	1,645,012	1,996,592
Total Capital Assets Not Being Depreciated	621,936	3,225,755	1,645,012	2,202,679
Capital Assets Being Depreciated				
Land improvements	91,400	-	-	91,400
Buildings and improvements	22,256,271	1,645,012	-	23,901,283
Furniture and equipment	399,829	15,400	-	415,229
Total Capital Assets Being Depreciated	22,747,500	1,660,412	-	24,407,912
Less Accumulated Depreciation				
Land improvements	91,400	-	-	91,400
Buildings and improvements	6,352,297	468,071	-	6,820,368
Furniture and equipment	311,338	15,635	-	326,973
Total Accumulated Depreciation	6,755,035	483,706	-	7,238,741
Governmental Activities Capital Assets, Net	$16,614,401	$ 4,402,461	$ 1,645,012	$ 19,371,850

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 251,302
Supervision of instruction	4,615
Instructional library, media, and technology	5,052
School site administration	19,476
Home-to-school transportation	727
Food services	6,902
All other pupil services	20,180
Community services	4,225
All other general administration	32,383
Data processing services	2,707
Plant services	32,451
Facilities acquisition and construction	103,686
Total Depreciation Expenses Governmental Activities	$ 483,706

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	$ 99,039	$ -	$ 4,335	$ 103,374
Salaries and benefits	1,003,144	-	4,375	1,007,519
Other payables	290,000	-	-	290,000
Construction	-	135,059	-	135,059
Total	$ 1,392,183	$ 135,059	$ 8,710	$ 1,535,952

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	(as restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	$ 34,567,585	$ 450,615	$ 450,266	$ 34,567,934	$ 1,291,758
General obligation premium	959,679	-	34,757	924,922	-
Accumulated vacation	74,290	707	-	74,997	-
Aggregate net OPEB liability	1,156,593	105,449	9,786	1,252,256	-
	$ 36,758,147	$ 556,771	$ 494,809	$ 36,820,109	$ 1,291,758

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund.

Payments for Accumulated Vacation are typically liquidated by the fund in which the employee was paid.

Payments for Aggregate Net OPEB Liability are typically made by the General Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Accretion	Deduction	Bonds Outstanding June 30, 2018
03/28/2003	08/01/2027	1.05-5.39%	$ 9,579,401	$ 792,700	$ 82,201	$ -	$ 874,901
02/02/2006	08/01/2030	3.15-4.97%	4,019,297	7,099,811	368,414	-	7,468,225
02/02/2006	08/01/2020	3.15-4.55%	7,005,074	1,675,074	-	450,266	1,224,808
11/16/2016	08/01/2045	3.00-5.00%	25,000,000	25,000,000	-	-	25,000,000
				$ 34,567,585	$ 450,615	$ 450,266	$ 34,567,934

Election 2002, Series 2003A General Obligation Bonds

In March 2003, the District issued $9,579,401 in Election 2002, Series 2003 A General Obligation Bonds. Proceeds from the bonds have been used for the purpose of construction and repair of existing school facilities within the District.

In February 2006, the 2005 General Obligation Refunding Bonds refunded a portion of the outstanding bonds. The remaining bonds mature through August 2027 and interest rates ranging from 1.05 percent through 5.39 percent. At June 30, 2018, the principal balance outstanding was $874,901.

The bonds mature through 2028 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2024-2028	$ 874,901	$ 1,115,099	$ 1,990,000

Election 2002, Series 2005B General Obligation Bonds

In February 2006, the District issued $4,019,297 in Election 2002, Series 2005 B General Obligation Bonds. Proceeds from the bonds have been used for the purpose of construction and repair of existing school facilities within the District. The bonds mature through August 2030 and interest rates ranging from 3.15 percent through 4.97 percent. At June 30, 2018, the principal balance outstanding was $7,468,225.

The bonds mature through 2031 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2022-2026	1,845,090	359,910	2,205,000
2207-2031	5,623,135	3,136,865	8,760,000
Total	$ 7,468,225	$ 3,496,775	$ 10,965,000

2005 General Obligation Refunding Bonds

In February 2006, the District issued $7,005,074 in 2005 General Obligation Refunding Bonds. Proceeds from the bonds have been used to refund a portion of the District's Series A Bonds on an advance basis. The bonds mature through August 2020 and interest rates ranging from 3.15 percent through 4.55 percent. At June 30, 2018, the principal balance outstanding was $1,224,808.

The bonds mature through 2021 as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 426,758	$ 628,242	$ 1,055,000
2020	408,101	676,899	1,085,000
2021	389,949	725,051	1,115,000
Total	$ 1,224,808	$ 2,030,192	$ 3,255,000

Election 2016, Series A General Obligation Bond

In November 2016, the District issued $25,000,000 in Election 2016, Series A General Obligation Bond. Proceeds from the bonds have been used for the purpose of improvements and acquisition of equipment for the existing schools. The bonds mature August 2045 and interest ranging from 3.00 percent through 5.00 percent. At June 30, 2018, the principal balance outstanding was $25,000,000.

The bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 865,000	$ 1,015,225	$ 1,880,225
2020	-	997,925	997,925
2021	5,000	997,850	1,002,850
2022	45,000	997,100	1,042,100
2023	85,000	995,150	1,080,150
2024-2028	1,165,000	4,856,600	6,021,600
2029-2033	2,820,000	4,372,125	7,192,125
2034-2038	5,165,000	3,460,188	8,625,188
2039-2043	8,120,000	2,210,450	10,330,450
2044-2046	6,730,000	417,800	7,147,800
Total	$ 25,000,000	$ 20,320,413	$ 45,320,413

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to $74,997.

Aggregate Net Other Postemployment Benefits (OPEB) Liability

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

OPEB Plan	Aggregate Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	$ 1,149,818	$ 13,573	$ 105,449
Medicare Premium Payment (MPP) Program	102,438	-	(9,786)
Total	$ 1,252,256	$ 13,573	$ 95,663

The details of each plan are as follows:

District Plan

Plan Administration

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

Management of the Plan is vested with the District management.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	1
Active employees	67
	68

Benefits Provided

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

The benefit payment requirements of the Plan members and the District are established and may be amended by the District and the District's bargaining units. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through agreements with the District and the District's bargaining units. For fiscal year 2017-2018, the District paid $6,933 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of $1,149,818 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	2.98 percent
Healthcare cost trend rates	7.00 percent

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

The mortality rates were based on the expectation that future experience under the Plan will be materially consistent with the assumptions utilized in the CalSTRS valuations. CalSTRS mortality rates are from the 2015 experience study.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 1,044,369
Service cost	62,733
Interest	34,631
Changes of assumptions or other inputs	15,018
Benefit payments	(6,933)
Net change in total OPEB liability	105,449
Balance at June 30, 2018	$ 1,149,818

There were no changes to benefit terms.

The discount rate as of the end of the fiscal year changed from 3.13 percent to 2.98 percent based on the change in 20 year municipal bond yields. The actuarial cost method changed to the Entry Age Normal method to reflect the adoption of GASB Statement No. 75. Morbidity rates were updated based on the June 2013 Society of Actuaries Study entitled "Health Care Costs - From Birth to Death". The healthcare cost trend was updated to a graded scale beginning with 7.00 percent in the 2017-2018 fiscal year.

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

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

Discount Rate	Total OPEB Liability
1% decrease (1.98%)	$ 1,257,201
Current discount rate (2.98%)	1,149,818
1% increase (3.98%)	1,049,843

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (6.00%)	$ 1,046,082
Current healthcare cost trend rate (7.00%)	1,149,818
1% increase (8.00%)	1,271,947

Deferred Outflows of Resources Related to OPEB

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	$ 1,445
2020	1,445
2021	1,445
2022	1,445
2023	1,445
Thereafter	6,348
	$ 13,573

Medicare Premium Payment (MPP) Program

Plan Description

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

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

Benefits Provided

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

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

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

OPEB Liabilities and OPEB Expense Related to the OPEB

At June 30, 2018, the District reported a liability of $102,438 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0243 percent and 0.0240 percent, resulting in a net increase in the proportionate share of 0.0003 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(9,786).

Actuarial Methods and Assumptions

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

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

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 113,406
Current discount rate (3.58%)	102,438
1% increase (4.58%)	91,769

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 92,568
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	102,438
1% increase (4.7% Part A and 5.1% Part B)	112,209

NOTE 9 - FUND BALANCES

Fund balances were composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable:					
Revolving cash	$ 500	$ -	$ -	$ -	$ 500
Restricted					
Legally restricted programs	316,545	-	-	127,073	443,618
Capital projects	-	20,972,419	-	439,932	21,412,351
Debt services	-	-	2,531,523	-	2,531,523
Total Restricted	316,545	20,972,419	2,531,523	567,005	24,387,492
Assigned					
Capital projects	-	-	-	476,641	476,641
Technology support	1,562	-	-	-	1,562
2017-2018 one time funds	195,613	-	-	-	195,613
Prior year one time funds	175,605	-	-	-	175,605
GASB retirement costs	408,152	-	-	-	408,152
Unused vacation	74,997	-	-	-	74,997
Total Assigned	855,929	-	-	476,641	1,332,570
Unassigned					
Economic uncertainties	2,748,743	-	-	-	2,748,743
Total	$ 3,921,717	$ 20,972,419	$ 2,531,523	$ 1,043,646	$ 28,469,305

NOTE 10 - RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

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

Employee Medical Benefits

The District has contracted with the SISC to provide employee health and dental benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 12,437,917	$ 3,951,732	$ 810,282	$ 1,417,174
CalPERS	3,164,396	1,031,887	46,167	689,330
Total	$ 15,602,313	$ 4,983,619	$ 856,449	$ 2,106,504

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

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

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were $972,712.

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

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

Total Net Pension Liability, Including State Share:	
District's proportionate share of net pension liability	$ 12,437,917
State's proportionate share of the net pension liability associated with the District	7,358,167
Total	$ 19,796,084

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0134 percent and 0.0135 percent, respectively, resulting in a net decrease in the proportionate share of 0.0001 percent.

For the year ended June 30, 2018, the District recognized pension expense of $1,417,174. In addition, the District recognized pension expense and revenue of $740,670 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 972,712	$ -
Net change in proportionate share of net pension liability	628,754	262,088
Differences between projected and actual earnings on the pension plan investments	-	331,256
Differences between expected and actual experiences in the measurement of the total pension liability	45,997	216,938
Changes of assumptions	2,304,269	-
Total	$ 3,951,732	$ 810,282

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (275,386)
2020	208,385
2021	30,048
2022	(294,303)
Total	$ (331,256)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 448,780
2020	448,780
2021	448,780
2022	448,780
2023	316,809
Thereafter	388,065
Total	$ 2,499,994

Actuarial Methods and Assumptions

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

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

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 18,262,811
Current discount rate (7.10%)	12,437,917
1% increase (8.10%)	7,710,621

California Public Employees' Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

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

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were $263,562.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $3,164,396. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0133 percent.

For the year ended June 30, 2018, the District recognized pension expense of $689,330. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 263,562	$ -
Net change in proportionate share of net pension liability	83,281	8,910
Differences between projected and actual earnings on the pension plan investments	109,466	-
Differences between expected and actual experiences in the measurement of the total pension liability	113,368	-
Changes of assumptions	462,210	37,257
Total	$ 1,031,887	$ 46,167

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

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

Year Ended June 30,		Deferred Outflows/(Inflows) of Resources
2019	$	(2,966)
2020		126,300
2021		46,075
2022		(59,943)
Total	$	109,466

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

Year Ended June 30,		Deferred Outflows/(Inflows) of Resources
2019	$	246,666
2020		208,937
2021		157,089
Total	$	612,692

Actuarial Methods and Assumptions

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

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

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 4,655,841
Current discount rate (7.15%)	3,164,396
1% increase (8.15%)	1,927,118

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $598,377 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

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

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Hermosa Valley Fence Project	$ 389,642	December 2018

NOTE 13 - PARTICIPATION IN JOINT POWERS AGENCIES

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) Joint Powers Authority (JPA). The District pays an annual premium to the entity for its workers' compensation and property liability coverage. The relationship between the District and ASCIP is such that ASCIP is not component unit of the District for financial reporting purposes.

ASCIP has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between ASCIP and the District are included in these statements. Audited financial statements are available from ASCIP.

The District has appointed one member from management to the governing board.

During the year ended June 30, 2018, the District made payments of $271,971 to ASCIP for services received.

NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Government-Wide Financial Statements		
Net Position - Beginning	$	427,918
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75		(821,550)
Net Position - Beginning, as Restated	$	(393,632)

REQUIRED SUPPLEMENTARY INFORMATION

HERMOSA BEACH CITY SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 10,034,555	$ 10,046,251	$ 9,862,727	$ (183,524)
Federal sources	257,411	243,815	224,496	(19,319)
Other State sources	770,071	959,618	1,804,609	844,991
Other local sources	1,421,903	1,441,769	1,598,742	156,973
Total Revenues [1]	12,483,940	12,691,453	13,490,574	799,121
EXPENDITURES				
Current				
Certificated salaries	6,770,605	6,770,605	6,667,219	103,386
Classified salaries	2,040,582	2,006,334	1,926,177	80,157
Employee benefits	2,500,625	2,350,625	2,915,884	(565,259)
Books and supplies	300,375	319,093	319,093	-
Services and operating expenditures	1,559,230	1,724,760	2,013,499	(288,739)
Other outgo	80,000	80,000	61,197	18,803
Capital outlay	137,000	137,000	70,567	66,433
Total Expenditures [1]	13,388,417	13,388,417	13,973,636	(585,219)
NET CHANGE IN FUND BALANCE	(904,477)	(696,964)	(483,062)	213,902
Fund Balance - Beginning	4,404,779	4,404,779	4,404,779	-
Fund Balance - Ending	$ 3,500,302	$ 3,707,815	$ 3,921,717	$ 213,902

[1] On behalf payments of $598,377 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	$ 62,733
Interest	34,631
Changes of assumptions	15,018
Benefit payments	(6,933)
Net change in total OPEB liability	105,449
Total OPEB liability - beginning	1,044,369
Total OPEB liability - ending	$ 1,149,818
Covered payroll	N/A[1]
District's total OPEB liability as a percentage of covered payroll	N/A[1]

[1] The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM
FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.0243%
District's proportionate share of the net OPEB liability	$ 102,438
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

[1] As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0134%	0.0135%
District's proportionate share of the net pension liability	$ 12,437,917	$ 10,904,937
State's proportionate share of the net pension liability associated with the District	7,358,167	6,207,986
Total	$ 19,796,084	$ 17,112,923
District's covered-employee payroll	$ 7,586,145	$ 6,635,601
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	163.96%	164.34%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.0133%	0.0133%
District's proportionate share of the net pension liability	$ 3,164,396	$ 2,632,339
District's covered-employee payroll	$ 1,739,754	$ 1,593,222
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.89%	165.22%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

	2016	2015
	0.0139%	0.0124%
	$ 9,383,327	$ 7,261,788
	4,962,746	4,384,981
	$ 14,346,073	$ 11,646,769
	$ 6,278,637	$ 5,534,885
	149.45%	131.20%
	74%	77%
	0.0127%	0.0117%
	$ 1,872,156	$ 1,324,137
	$ 1,385,371	$ 1,224,633
	135.14%	108.13%
	79%	83%

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	$ 972,712	$ 954,337
Contributions in relation to the contractually required contribution	972,712	954,337
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 6,740,901	$ 7,586,145
Contributions as a percentage of covered-employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 263,562	$ 241,617
Contributions in relation to the contractually required contribution	263,562	241,617
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 1,697,006	$ 1,739,754
Contributions as a percentage of covered-employee payroll	15.531%	13.888%

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

	2016	2015
	$ 712,000	$ 557,543
	712,000	557,543
	$ -	$ -
	$ 6,635,601	$ 6,278,637
	10.73%	8.88%
	$ 188,749	$ 163,072
	188,749	163,072
	$ -	$ -
	$ 1,593,222	$ 1,385,371
	11.847%	11.771%

HERMOSA BEACH CITY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2018, the District's General Fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual*	Excess
General Fund	$ 13,388,417	$ 13,973,636	$ (585,219)

*The on behalf payment of $598,377 was not included in the budget.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

***Changes in Benefit Terms* -** There were no changes in the benefit terms since the previous valuation.

***Changes of Assumptions* -** The discount rate as of the end of the fiscal year changed from 3.13 percent to 2.98 percent based on the change in 20 year municipal bond yields. The actuarial cost method changed to the Entry Age Normal method to reflect the adoption of GASB Statement No. 75. Morbidity rates were updated based on the June 2013 Society of Actuaries Study entitled "Health Care Costs - From Birth to Death". The healthcare cost trend was updated to a graded scale beginning with 7.00 percent in the 2017-2018 fiscal year.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the Plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

HERMOSA BEACH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Hermosa Beach City School District was established in 1904, and consists of an area comprising of 1.3 square miles. This District operates two school sites, Hermosa View School (Kindergarten through third grade) and Valley School (fourth through eighth grade). There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ms. Margaret Bove-LaMonica	President	2018
Ms. Monique Ehsan	Clerk	2020
Ms. Carleen Beste	Member	2018
Mr. Doug Gardner	Member	2020
Ms. Jennifer Cole	Member	2018

ADMINISTRATION

Ms. Patricia Escalante	Superintendent
Ms. Paula Montalbo	Business Manager

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	547.18	547.59
Fourth through sixth	459.55	458.57
Seventh and eighth	303.70	301.20
Total Regular ADA	1,310.43	1,307.36
Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	-	0.42
Total ADA	1,310.43	1,307.78

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,090	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,415	180	N/A	Complied
Grade 2		50,415	180	N/A	Complied
Grade 3		54,690	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,737	180	N/A	Complied
Grade 5		55,737	180	N/A	Complied
Grade 6		59,518	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,518	180	N/A	Complied
Grade 8		59,518	180	N/A	Complied

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

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

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund	Building Fund
FUND BALANCE		
Balance, June 30, 2018, Unaudited Actuals	$ 4,210,456	$ 21,004,055
Increase in:		
Due from other funds	1,261	-
Due to other funds	-	(1,261)
Accounts payable	(290,000)	(30,375)
Balance, June 30, 2018, Audited Financial Statement	$ 3,921,717	$ 20,972,419

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 [1]	2018	(as restated) 2017	2016
GENERAL FUND				
Revenues	$ 13,258,206	$ 13,490,574	$ 13,814,715	$ 14,231,566
Expenditures	13,568,719	13,973,636	14,009,836	13,087,175
INCREASE (DECREASE) IN FUND BALANCE	$ (310,513)	$ (483,062)	$ (195,121)	$ 1,144,391
ENDING FUND BALANCE	$ 3,611,204	$ 3,921,717	$ 4,404,779	$ 4,599,900
AVAILABLE RESERVES [2]	$ 2,862,069	$ 2,748,743	$ 3,039,161	$ 3,384,821
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	21.1%	19.7%	21.7%	25.9%
LONG-TERM OBLIGATIONS [3]	N/A	$ 36,820,109	$ 36,758,147	$ 10,469,462
K-12 AVERAGE DAILY ATTENDANCE AT P-2	1,313	1,310	1,328	1,384

The General Fund balance has decreased by $678,183 over the past two years. The fiscal year 2018-2019 budget projects a decrease of $310,513 (7.92 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years, and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $26,350,647 over the past two years.

Average daily attendance has decreased by 74 over the past two years. An increase of three ADA is anticipated during fiscal year 2018-2019.

[1] Budget 2019 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

[3] Long-term obligations have been restated, as of June 30, 2017 due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
ASSETS				
Deposits and investments	$ 112,248	$ 386,127	$ 474,110	$ 972,485
Receivables	23,172	54,055	2,644	79,871
Total Assets	$ 135,420	$ 440,182	$ 476,754	$ 1,052,356
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 8,347	$ 250	$ 113	$ 8,710
Fund Balances:				
Restricted	127,073	439,932	-	567,005
Assigned	-	-	476,641	476,641
Total Fund Balances	127,073	439,932	476,641	1,043,646
Total Liabilities and Fund Balances	$ 135,420	$ 440,182	$ 476,754	$ 1,052,356

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

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

	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
REVENUES				
Federal sources	$ 33,603	$ -	$ -	$ 33,603
Other State sources	942	-	-	942
Other local sources	213,709	157,669	7,455	378,833
Total Revenues	248,254	157,669	7,455	413,378
EXPENDITURES				
Current				
Pupil services:				
Food services	240,961	-	-	240,961
Facility acquisition and construction	-	55,480	7,907	63,387
Total Expenditures	240,961	55,480	7,907	304,348
NET CHANGE IN FUND BALANCES	7,293	102,189	(452)	109,030
Fund Balances - Beginning	119,780	337,743	477,093	934,616
Fund Balances - Ending	$ 127,073	$ 439,932	$ 476,641	$ 1,043,646

See accompanying note to supplementary information.

HERMOSA BEACH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Hermosa Beach City School District
Hermosa Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hermosa Beach City School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 10, 2018

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

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hermosa Beach City School District
Hermosa Beach, California

Report on State Compliance

We have audited Hermosa Beach City School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does offer an Independent Study Program; however, the ADA was below the materiality threshold as indicated in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Continuation Program; therefore, we did not perform procedures related to the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The District did not receive transportation funding in the 2012-2013 fiscal year; therefore, we did not perform any procedures related to Transportation Maintenance of Effort.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District did not have expenditures in the current year related to the California Clean Energy Jobs Act; therefore, we did not perform any procedures related to the California Clean Energy Jobs Act.

The District does not offer a Before or After School Education and Safety Program; therefore, we did not perform any procedures related to the Before or After School Education and Safety Program.

The District does not offer Independent Study - Course Based; therefore, we did not perform any procedures for Independent Study - Course Based program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 10, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

HERMOSA BEACH CITY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

State Awards Findings

None reported.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated October 23, 2019, is executed and delivered by the Hermosa Beach City School District (the "Issuer") in connection with the issuance of the $23,000,000 of Hermosa Beach City School District (Los Angeles County, California) Election of 2016 General Obligation Bonds, Series B, (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer adopted on September 11, 2019 and a resolution of the Board of Supervisors of the County of Los Angeles adopted on October 1, 2019 (together, the "Resolutions"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, 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 Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean either of the Superintendent or the Business Manager of the Issuer, or either of their designees, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean, Montague DeRose and Associates, or any successor Dissemination Agent designated in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of (a) or (b). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the MSRB under the Rule.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"Official Statement" shall mean the Official Statement for the Bonds dated October 9, 2019.

"Participating Underwriter" shall mean the original underwriter of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than the last day of the ninth month (currently March 31) after the end of the Issuer's fiscal year, commencing with the report for the fiscal year ending June 30, 2019, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer's fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the MSRB and the Dissemination Agent of a change in the fiscal year dates. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent is other than the Issuer, not later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall file a notice in a timely manner with the MSRB, in the form required by the MSRB.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided the MSRB. The Dissemination Agent's duties under this clause (ii) shall exist only if the Issuer provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(a) (i) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended; (ii) the most recently adopted budget of the Issuer and, if required to be prepared and filed, the First Interim Report for the current fiscal year; and (iii) an update of the information contained in Tables 1 through 4 and 14 contained under the headings "TAX BASE FOR REPAYMENT OF THE SERIES B

BONDS" and "DISTRICT FINANCIAL MATTERS" in the Official Statement for the Bonds. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

(c) Financial information relating to the District referenced in Section 4(a) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

(1) principal and interest payment delinquencies;

(2) unscheduled draws on debt service reserves reflecting financial difficulties;

(3) unscheduled draws on credit enhancements reflecting financial difficulties;

(4) substitution of credit or liquidity providers, or their failure to perform;

(5) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);

(6) tender offers;

(7) defeasances;

(8) ratings changes;

(9) bankruptcy, insolvency, receivership or similar proceedings; and

(10) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) unless described in paragraph 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(2) the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(3) appointment of a successor or additional trustee or the change of the name of a trustee;

(4) nonpayment related defaults;

(5) modifications to the rights of Owners of the Bonds;

(6) notices of redemption;

(7) release, substitution or sale of property securing repayment of the Bonds; and

(8) incurrence of a Financial Obligation of the District or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (b), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under subsection 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the MSRB in a timely manner not more than ten (10) business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolutions. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing thirty days written notice to the Issuer and the Paying Agent. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent (if other than the Issuer) an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Certificate may be amended in writing with respect to the Bonds, upon obtaining consent of Owners at least 25% in aggregate principal of the Bonds then outstanding; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice if occurrence of a Listed Event.

The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

SECTION 10. Default. In the event the Issuer fails to comply with any provision in this Disclosure Certificate, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the Issuer to comply with this Disclosure Certificate. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolutions, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer 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 Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter, Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: Superintendent
Hermosa Beach City School District
425 Valley Drive
Hermosa Beach, California 90254

HERMOSA BEACH CITY SCHOOL DISTRICT

By: ______________________________
Its: Superintendent

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APPENDIX D

CITY OF HERMOSA BEACH AND COUNTY OF LOS ANGELES
GENERAL AND ECONOMIC DATA

The following information concerning the City of Hermosa Beach (the "City"), the County of Los Angeles (the "County") and the State of California (the "State") are presented as general background information. The Series B 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 Series B 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 – Hermosa Beach

The City encompasses approximately 1.4 square miles and is located in the center of the South Bay coastline, approximately 5 miles south of Los Angeles. The City was incorporated in 1907 and operates in the council-manager form of government. Each of the five (5) City Council members is elected in an at-large election for alternating four year terms.

The City provides police and service and has a host of recreational facilities including a skate park, green belt, community theater, and senior center. The City is located within a short commute to major employers in such fields as aerospace, industrial and finance.

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*
Hermosa Beach	19,968	19,981	19,870	19,814	19,847
Los Angeles County	10,155,753	10,185,851	10,226,920	10,254,658	10,253,716
State of California	38,952,462	39,214,803	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 HERMOSA BEACH
Building Permit Valuation and New Housing Units

	2014	*2015*	*2016*	*2017*	*2018*
Residential					
Single Family	$ 31,780,531	$ 25,092,101	$ 25,569,158	$ 17,520,025	$ 35,068,560
Multi-Family	3,257,374	5,807,309	5,621,935	1,985,446	4,488,392
Alteration/Additions	7,100,032	10,594,850	10,793,203	7,076,107	8,525,394
Total	$ 42,137,937	$ 41,494,260	$ 41,984,296	$ 26,581,578	$ 48,082,346
Non-Residential					
New Commercial	$ 0	$ 847,045	$ 5,992,298	$ 1,580,107	$ 0
New Industry	0	0	0	0	0
Other[1]	1,122,967	755,665	884,104	737,141	743,479
Alteration/Additions	4,228,157	2,494,130	2,942,392	1,352,558	5,109,800
Total	$ 5,351,124	$ 4,096,480	$ 9,818,794	$ 3,669,806	$ 5,853,279
Total All Industry[2]	$ 47,489,061	$ 45,591,100	$ 51,803,090	$ 30,251,384	$ 53,935,625
New Housing Units					
Single Family Units	53	43	49	29	56
Multi-Family Units	8	15	15	5	9
Total	61	58	64	34	65

(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 HERMOSA BEACH
MAJOR EMPLOYERS
(2018)

Name	*Employees*	*Type of business or entity*
City of Hermosa Beach	158	City Government
Intensive Behavior Intervention Consultants	125	Student Support Services
Von's Companies	125	Grocery Market
First Steps for Kids, Inc.	101	Child Support Services
Hermosa Beach School District	93	School District
Trader Joe's	86	Grocery Market
Hennessey's	75	Restaurant
24 Hour Fitness	68	Fitness Center
Sunrise Assisted Living	65	Assisted Living Center
ICAN California Abilities Network	64	Vocational Support Services

Source: City of Hermosa Beach, *Comprehensive Annual Financial Report – Year Ending June 30, 2018.*

Employment and Industry

Los Angeles-Long Beach-Glendale Metropolitan Division civilian labor force and wage and salary employment figures for calendar years 2014 through 2018 are shown in the following table.

Los Angeles-Long Beach-Glendale Metropolitan Division
Industry Employment & Labor Force - by Annual Average

Title	*2014*	*2015*	*2016*	*2017*	*2018*
Civilian Labor Force	4,992,600	4,989,800	5,041,400	5,096,500	5,136,300
Civilian Employment	4,580,300	4,659,700	4,776,700	4,853,800	4,896,500
Civilian Unemployment	412,300	330,100	264,800	242,700	239,800
Civilian Unemployment Rate	8.3%	6.6%	5.3%	4.8%	4.7%
Total Farm	5,200	5,000	5,300	5,700	4,800
Total Nonfarm	4,192,600	4,285,800	4,394,600	4,448,300	4,510,100
Total Private	3,636,500	3,717,300	3,817,900	3,862,200	3,920,500
Goods Producing	493,100	497,300	497,100	490,300	491,600
Natural Resources and Mining	121,600	129,000	136,300	140,400	147,900
Construction	118,500	126,100	133,900	138,400	146,000
Manufacturing	371,500	368,200	360,800	349,900	343,700
Service Providing	3,699,500	3,788,500	3,897,400	3,958,000	4,018,500
Trade, Transportation and Utilities	804,500	822,200	835,600	845,700	850,900
Wholesale Trade	219,600	222,400	222,100	221,500	222,800
Retail Trade	415,700	422,200	424,600	426,100	425,300
Transportation, Warehousing and Utilities	169,300	177,600	188,900	198,200	202,800
Information	198,900	207,600	229,400	214,900	217,400
Financial Activities	211,200	215,600	219,800	221,600	223,000
Professional and Business Services	589,100	591,000	600,100	608,800	620,000
Educational and Health Services	725,000	745,900	772,700	800,600	823,600
Leisure and Hospitality	464,100	486,600	510,000	524,600	534,300
Other Services	150,500	151,000	153,300	155,700	159,700
Government	556,200	568,500	576,700	586,100	589,600
Total, All Industries	4,197,800	4,290,700	4,399,900	4,454,000	4,514,900

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, Los Angeles-Long Beach-Glendale Metropolitan Division (Los Angeles County), 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 HERMOSA BEACH, LOS ANGELES COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Average Annual Civilian Labor Force, Employment and Unemployment

Year and Area	*Labor Force*	*Employment* [(1)]	*Unemployment* [(2)]	*Unemployment Rate (%)* [(3)]
2014				
City of Hermosa Beach	12,500	12,000	400	3.5%
Los Angeles County	4,992,600	4,580,300	412,300	8.3
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 Hermosa Beach	12,500	12,200	400	2.8%
Los Angeles County	4,989,800	4,659,700	330,100	6.6
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 Hermosa Beach	12,100	11,800	300	2.4%
Los Angeles County	5,041,400	4,776,700	264,800	5.3
California	19,044,500	18,002,800	1,041,700	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
City of Hermosa Beach	12,600	12,300	300	2.2%
Los Angeles County	5,096,500	4,853,800	242,700	4.8
California	19,205,300	18,285,500	919,800	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
2018				
City of Hermosa Beach	2,700	12,400	300	2.2%
Los Angeles County	5,136,300	4,896,500	239,800	4.7
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, March 2018 Benchmark.

Retail Sales

The table below presents the City's retail sales for the years 2014 through 2017 and the first quarter of 2018.

CITY OF HERMOSA BEACH
Taxable Transactions For Years 2010 through 2014
(in Thousands)

	2014	*2015*	*2016*	*2017*	*2018*[(1)]
Clothing & Clothing Accessories Stores	$ 9,090	$ 9,093	$ 9,218	$ 8,969	$ 2,251
General Merchandise Stores	661	443	553	540	23
Food & Beverage Stores	21,339	24,035	23,413	25,650	5,746
Food Services & Drinking Places	93,571	97,144	96,364	102,432	24,692
Home Furnishings & Appliance Stores	#	10,624	9,925	16,437	4,269
Building Material & Garden Equipment & Supplies	21,339	#	#	#	#
Motor Vehicle & Parts Dealers	6,870	7,084	9,121	14,652	3,132
Gasoline Stations	#	#	#	#	#
Other Retail Group	62,407[d]	67,818[d]	68,165[d]	69,521[d]	17,490[d]
Total Retail and Food Services	218,130	216,242	216,758	238,202	57,603
All Other Outlets	24,019	25,213	28,824	24,262	4,913
Total All Outlets	$ 242,149	$ 241,455	$ 245,582	$ 262,464	$ 62,517

(1) Through the first quarter of 2018.
Sales omitted because their publication would result in the disclosure of confidential information.
d Adjusted for disclosures.
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 Series E Bonds, payment of principal, premium, if any, accreted value and interest on the Series E Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series E Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series E 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 SERIES E BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES E BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX F

LOS ANGELES COUNTY TREASURER'S STATEMENT OF INVESTMENT POLICY

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COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 437, Los Angeles, California 90012
Telephone: (213) 974-2101 Fax: (213) 626-1812
ttc.lacounty.gov and lacountypropertytax.com

JOSEPH KELLY
TREASURER AND TAX COLLECTOR

March 19, 2019

28 March 19, 2019

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**DELEGATION OF AUTHORITY TO INVEST AND
ANNUAL ADOPTION OF THE TREASURER AND TAX COLLECTOR
INVESTMENT POLICY
(ALL DISTRICTS) (3-VOTES)**

SUBJECT

Delegation of authority to invest and reinvest County funds and funds of other depositors in the County Treasury to the Treasurer, and adoption of the Treasurer and Tax Collector Investment Policy.

IT IS RECOMMENDED THAT THE BOARD:

1. Delegate the authority to the Treasurer to invest and reinvest County funds and funds of other depositors in the County Treasury.

2. Adopt the attached Treasurer and Tax Collector Investment Policy (Investment Policy).

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The requested actions allow the Treasurer to continue to invest County funds and funds of other depositors in the County Treasury pursuant to the Investment Policy. On March 20, 2018, pursuant to Government Code Section 27000.1, and subject to Government Code Section 53607, your Board delegated to the Treasurer the annual authority to invest and reinvest funds of the County and funds of other depositors in the County Treasury. Government Code Section 27000.1 states that subsequent to your Board's delegation, the county treasurer shall thereafter assume full responsibility for those transactions until your Board either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607. This action requests renewal of the annual delegation.

Government Code Section 53646 permits your Board to annually approve the Investment Policy. The primary objectives of the Investment Policy, in priority order, are to maintain the safety of principal, to provide liquidity, and to achieve a return on funds invested. These objectives align with those in State law. Each year, my office reviews the Investment Policy to ensure that it aligns with any changes in the Government Code. Based on our analysis, we do not recommend any changes to the Investment Policy. Nevertheless, we have provided the annual update to the limitation calculation for intermediate-term, medium-term, and long-term holdings in Attachment II.

Implementation of Strategic Plan Goals

The recommended action supports County Strategic Plan Strategy III.3 - Pursue Operational Effectiveness, Fiscal Responsibility, and Accountability.

FISCAL IMPACT/FINANCING

The investment of surplus County funds and funds of other depositors allows these funds to earn a return which is credited to the depositor, net of administrative expenses.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Pursuant to Government Code Section 27000.1, your Board may delegate by ordinance the authority to invest and reinvest funds of the County and funds of other depositors in the County Treasury to the Treasurer. On January 23, 1996, your Board adopted Ordinance 96-0007 addingLos Angeles County Code Section 2.52.025 which delegated such authority to the Treasurer, subject to annual renewal pursuant to Government Code Section 53607.

Government Code Section 53646 permits the Treasurer to render annually to your Board a statement of Investment Policy, to be reviewed and approved at a public meeting. This Government Code Section also requires that any change in the Investment Policy be submitted to your Board for review and approval at a public meeting.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There is no impact on current services.

Respectfully submitted,

Joseph Kelly

Treasurer and Tax Collector

JK:NI:JNK:bp

Enclosures

c: Chief Executive Officer
Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Los Angeles County Office of Education
Los Angeles Community College District

COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR
INVESTMENT POLICY

Authority to Invest

Pursuant to Government Code Section 27000.1 and Los Angeles County Code 2.52.025, the Los Angeles County Board of Supervisors has delegated to the Treasurer the authority to invest and reinvest the funds of the County and the funds of other depositors in the County Treasury.

Fundamental Investment Policy

The Treasurer, a trustee, is inherently a fiduciary and subject to the prudent investor standard. Accordingly, when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing investments, the investment decisions SHALL be made with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity would use with like aims.

All investments SHALL be governed by the Government Code and comply with the specific limitations set forth within this Investment Policy. Periodically, it may be necessary and prudent to make investment decisions beyond the limitations set forth in the Investment Policy that are otherwise permissible by California Government Code. In these special circumstances, ONLY the Treasurer is permitted to give written approval to operate outside the limitations set forth within this Investment Policy.

Pooled Surplus Investment Portfolio

The Treasurer SHALL establish and maintain a Pooled Surplus Investment (PSI) portfolio. The PSI portfolio SHALL be used to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury.

The investment policies of the PSI portfolio SHALL be directed by and based on three prioritized objectives. The primary objective SHALL be to ensure the safety of principal. The secondary objective SHALL be to meet the liquidity needs of the PSI participants, which might be reasonably anticipated. The third objective SHALL be to achieve a return on funds invested, without undue compromise of the first two objectives.

PSI revenue/loss distribution SHALL be shared on a pro-rata basis with the PSI participants. PSI revenue/loss distribution will be performed monthly, net of administrative costs authorized by Government Code Section 27013 which includes employee salaries and benefits and services and supplies, for investing, depositing or handling funds, and the distribution of interest income, based on the PSI participants' average daily fund balance as recorded on the Auditor-Controller's accounting records. Administrative costs SHALL be deducted from the monthly PSI revenue/loss distribution on the basis of one-twelfth of the budgeted costs and adjusted periodically to actual costs.

Investments purchased with the intent to be held to maturity SHALL be accounted for in the Non-Trading partition of the PSI portfolio. Investments purchased with the intent to be sold prior to maturity SHALL be accounted for in the Trading partition of the PSI portfolio. The investments in the Trading partition SHALL NOT exceed $500 million without specific written approval of the Treasurer.

In the event that a decision is made to transfer a given security from one partition to another, it MAY be transferred at cost; however, the difference between the market value, exclusive of accrued interest, at the time of transfer and the purchase price, exclusive of accrued interest, SHALL be computed and disclosed as unrealized profit or loss.

All PSI investments SHALL be categorized according to the period of time from settlement date to maturity date as follows:

- SHORT-TERM investments are for periods of up to ONE YEAR.
- INTERMEDIATE-TERM investments are for periods of ONE YEAR to THREE YEARS.
- MEDIUM-TERM investments are for periods of over THREE YEARS to FIVE YEARS.
- LONG-TERM investments are for periods of over FIVE YEARS.

PSI investments SHALL be limited to the short-term category except that the Investment Office of the Treasurer's Office MAY make PSI investments in accordance with the limitations imposed in Attachments I, II, and III (all of which are attached hereto and incorporated by this reference.)

The weighted average maturity target of the PSI portfolio is a range between 1.0 and 2.0 years. For purposes of maturity classification, the maturity date SHALL be the nominal maturity date or the unconditional put option date, if one exists.

The total PSI portfolio investments with maturities in excess of one year SHALL NOT exceed 75% of the last 36 months’ average total cash and investments, after adjustments, as indicated in Attachment II.

Business Continuity Plan

The Treasurer's Business Continuity Plan (BCP) serves to sustain the performance of mission-critical Treasury functions in the event of a local or widespread disaster. The BCP includes written guidelines to perform critical Treasury functions, contact information for key personnel, authorized bank representatives and broker/dealers. The plan provides for an offsite location in the event the Treasurer's offices are uninhabitable. The Treasurer's Office implemented its BCP in 2007.

The Treasurer's Office shall perform regularly scheduled BCP exercises at the offsite location. To prepare Treasury staff for emergency processing, staff shall participate in the BCP exercises on a rotating basis.

Liquidity of PSI Investments

Short-term liquidity SHALL further be maintained and adjusted monthly so that sufficient anticipated cash is available to fully meet unanticipated withdrawals of discretionary deposits, adjusted for longer-term commitments, within 90 days.

Such liquidity SHALL be monitored where, at the beginning of each month, the par value for maturities in the next 90 days plus projected PSI deposits for 90 days, divided by the projected PSI withdrawals for 90 days plus discretionary PSI deposits, is equal to or greater than one.

The liquidation of investments is <u>not</u> required solely because the discretionary liquidity withdrawal ratio is less than one; however, investments SHALL be limited to a maximum maturity of 30 days until such time as the discretionary liquidity withdrawal ratio is equal to or greater than one.

The sale of any PSI instrument purchased in accordance with established policies is not required solely because an institution's credit rating is lowered after the purchase of the instrument.

Specific Purpose Investment Portfolio

The Treasurer SHALL maintain a Specific Purpose Investment (SPI) portfolio to manage specific investment objectives of the SPI participants. Specific investments may be made with the approval of the requesting entity's governing body and the approval of the Treasurer. Revenue/loss distribution of the SPI portfolio SHALL be credited to the specific entity for which the investment was made. The Treasurer reserves the right to establish and charge the requesting entity fees for maintaining the entity's SPI portfolio.

Investments SHALL be limited to the short-term category, as defined above in the previous section for PSI investments, except when requested by a depositing entity and with the approval of the Treasurer, a longer term investment MAY be specifically made and held in the SPI portfolio.

The sale of any SPI instrument purchased in accordance with established policies is not required solely because an institution's credit rating is lowered after the purchase of the instrument.

Execution, Delivery, and Monitoring of Investments

The Treasurer SHALL designate, in writing, personnel authorized to execute investment transactions.

All transactions SHALL be executed on a delivery versus payment basis.

The Treasurer or his authorized designees, in purchasing or obtaining any securities in a negotiable, bearer, registered, or nonregistered format, requires delivery of the securities to the Treasurer or designated custodial institution, by book entry, physical delivery, or by third party custodial agreement.

All investment transactions made by the Investment Office SHALL be reviewed by the Internal Controls Branch to assure compliance with this Investment Policy.

Reporting Requirements

The Treasurer SHALL provide the Board of Supervisors with a monthly report consisting of, but not limited to, the following:

- All investments detailing each by type, issuer, date of maturity, par value, historical cost, market value and the source of the market valuation.
- Month-end bank balances for accounts under the control of the Treasurer.
- A description of funds, investments, or programs that are under the management of contracted parties, including lending programs for the Treasurer.
- A description of all investment exceptions, if any, to the Investment Policy.

- A statement denoting the ability of the PSI portfolio to meet the anticipated cash requirements for the participants for the next six months.

Discretionary Treasury Deposits and Withdrawal of Funds

At the sole discretion of the Treasurer, PSI deposits may be accepted from local agencies not required to deposit their funds with the Los Angeles County Treasurer, pursuant to Government Code Section 53684.

At the time such deposits are made, the Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of $1 million. Such projections may be adjusted periodically as prescribed by the Treasurer but in no event less than semi-annually.

In accordance with Government Code Section 27136, all requests for withdrawal of such funds, for the purpose of investing or depositing these funds elsewhere SHALL be evaluated, prior to approving or disapproving the request, to ensure that the proposed withdrawal will not adversely affect the principal deposits of the other PSI participants.

If it is determined that the proposed withdrawal will negatively impact the principal deposits of the other PSI participants, the Treasurer may delay such withdrawals until the impact can be mitigated.

Broker/Dealers Section

Broker/Dealers SHALL be limited to primary government dealers as designated by the Federal Reserve Bank or institutions meeting one of the following:

A. Broker/Dealers with minimum capitalization of $500 million and who meet all five of the below listed criteria:

   1. Be licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporations Code, or a member of a Federally regulated securities exchange and;

   2. Be a member of the Financial Industry Regulatory Authority and;

   3. Be registered with the Securities and Exchange Commission and;

   4. Have been in operation for more than five years; and

5. Have a minimum annual trading volume of $100 billion in money market instruments or $500 billion in United States (U.S.) Treasuries and Agencies.

B. Emerging firms that meet all of the following:

1. Be licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporations Code, or a member of a Federally regulated securities exchange and;

2. Maintain office(s) in California and;

3. Maintain a minimum capitalization of $250,000 and, at the time of application, have a maximum capitalization of no more than $10 million.

Commercial Paper and Negotiable Certificates of Deposit may be purchased directly from issuers approved by the Treasurer.

An approved Treasurer Broker/Dealer list SHALL be maintained. Firms SHALL be removed from the approved Broker/Dealer list and trading suspended with firms failing to accurately and timely provide the following information:

A. Confirmation of daily trade transactions and all open trades in effect at month-end.

B. Response to auditor requests for confirmation of investment transactions.

C. Response to the Internal Controls Branch requests for needed information.

Honoraria, Gifts, and Gratuities Limitations

The Treasurer, Chief Deputy Treasurer and Tax Collector and designated Treasurer and Tax Collector employees SHALL be governed by the provision of the State's Political Reform Act, the Los Angeles County Code relating to Lobbyists, and the Los Angeles County Code relating to post government employment of County officials.

Investment Limitations

The Investment Office SHALL NOT invest in inverse floating rate notes, range notes, or interest only strips that are derived from a pool of mortgages.

The Investment Office SHALL NOT invest in any security that could result in zero interest if held to maturity.

For investment transactions in the PSI portfolio, the Investment Office SHALL obtain approval of the Treasurer before recognizing any loss exceeding $100,000 per transaction, calculated using amortized cost.

Proceeds from the sale of notes or funds set aside for the repayment of notes SHALL NOT be invested for a term that exceeds the term of the notes. Funds from bond proceeds may be invested in accordance with Government Code Section 53601(m), which permits investment according to the statutory provisions governing the issuance of those bonds, or in lieu of any statutory provisions to the contrary, in accordance with the approved financing documents for the issuance.

Permitted Investments

Permitted Investments SHALL be limited to the following:

A. **Obligations of the U.S. Government, its agencies and instrumentalities**

   1. Maximum maturity: None.

   2. Maximum total par value: None.

   3. Maximum par value per issuer: None.

   4. Federal agencies: Additional limits in Section G apply if investments are Floating Rate Instruments.

B. **Municipal Obligations from the approved list of municipalities** (Attachment III)

   1. Maximum maturity: As limited in Attachment III.

   2. Maximum total par value: 10% of the PSI portfolio.

C. Asset-Backed Securities

1. Maximum maturity: Five years.

2. Maximum total par value: 20% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for issuer's current credit rating.

4. All Asset-Backed securities must be rated in a rating category of “AA” or its equivalent or better rating and the issuer's corporate debt rating must be in a rating category of “A” or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).

D. Bankers’ Acceptance Domestic and Foreign

1. Maximum maturity: 180 days and limits outlined in Attachment I for issuer's current credit rating.

2. Maximum total par value: 40% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.

4. The aggregate total of Bankers’ Acceptances and Negotiable Certificates of Deposits SHALL NOT exceed:

   a) The total shareholders’ equity of depository bank.

   b) The total net worth of depository bank.

E. Negotiable Certificates of Deposit (CD)

1. Maximum maturity: Three years and limits outlined in Attachment I for issuer's current credit rating.

2. Maximum total par value: Aggregate total of Domestic and Euro CD's are limited to 30% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.

4. Must be issued by:

   a) National or State-chartered bank, or

   b) Savings association or Federal association, or

   c) Federal or State credit union, or

   d) Federally licensed or State-licensed branch of a foreign bank.

5. Euro CD's:

   a) Maximum maturity: One year and limits outlined in Attachment I for issuer's current credit rating.

   b) Maximum total par value: 10% of the PSI portfolio.

   c) Maximum par value per issuer: Per limits outlined in Attachment I for issuer's current credit rating.

   d) Limited to London branch of National or State-chartered banks.

6. The aggregate total of Bankers Acceptances and Negotiable Certificates of Deposits SHALL NOT exceed:

   a) The total shareholders' equity of depository bank.

   b) The total net worth of the depository bank.

F. Corporate and Depository Notes

1. Maximum maturity: Three years and limits outlined in Attachment I for the issuer's current credit rating.

2. Maximum total par value: 30% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.

4. Notes MUST be issued by:

   a) Corporations organized and operating within the U.S.

   b) Depository institutions licensed by the U.S or any State and operating within the U.S.

5. Additional limits in Section G apply if note is a Floating Rate Note Instrument.

G. Floating Rate Notes

Floating Rate Notes included in this category are defined as any instrument that has a coupon or interest rate that is adjusted periodically due to changes in a base or benchmark rate.

1. Maximum maturity: Seven years, provided that Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of $100 million par value may be greater than five years to maturity.

2. Maximum total par value: 10% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for the issuer's current credit rating.

4. Benchmarks SHALL be limited to commercially available U.S. dollar denominated indexes.

5. The Investment Office SHALL obtain the prospectus or the issuer term sheet prior to purchase for all Floating Rate Notes and SHALL include the following on the trade ticket:

   a) Specific basis for the benchmark rate.

   b) Specific computation for the benchmark rate.

   c) Specific reset period.

d) Notation of any put or call provisions.

H. Commercial Paper

1. Maximum maturity: 270 days and limits outlined in Attachment I for the issuer's current credit rating.

2. Maximum total par value: 40% of the PSI portfolio.

3. Maximum par value per issuer: The lesser of 10% of the PSI portfolio or the limits outlined in Attachment I for the issuer's current credit rating.

4. Credit: Issuing Corporation - Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

   a) The entity meets the following criteria:

      1) Is organized and operating in the U.S. as a general corporation.

      2) Has total assets in excess of $500 million.

      3) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a NRSRO.

   b) The entity meets the following criteria:

      1) Is organized in the U.S. as a Limited Liability Company or Special Purpose Corporation.

      2) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.

      3) Has commercial paper that is rated "A-1"or higher, or the equivalent, by a NRSRO.

I. Shares of Beneficial Interest

1. Money Market Fund (MMF) - Shares of beneficial interest issued by

diversified management companies known as money market mutual funds, registered with the Securities and Exchange Commission in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulation. The company SHALL have met either of the following criteria:

a) Attained the highest possible rating by not less than two NRSROs.

b) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized in Government Code Section 53601 and with assets under management in excess of five hundred million dollars ($500,000,000).

Maximum total par value: 15% of the PSI portfolio. However, no more than 10% of the PSI may be invested in any one fund.

2. State of California's Local Agency Investment Fund (LAIF) pursuant to Government Code Section 16429.1.

3. Trust Investments – Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in securities and obligations authorized in Section 53601 (a) to (o) of the Government Code. To be eligible, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

   a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

   b) The adviser has not less than five years of experience investing in the securities and obligations authorized in Section 53601 (a) to (o) of the Government Code.

   c) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

J. Repurchase Agreement

1. Maximum maturity: 30 days.

2. Maximum total par value: $1 billion.

3. Maximum par value per dealer: $500 million.

4. Agreements must be in accordance with approved written master repurchase agreement.

5. Agreements must be fully secured by obligations of the U.S. Government, its agencies and instrumentalities. The market value of these obligations 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 than monthly. 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. If a repurchase agreement matures the next business day after purchase, the repurchase agreement is not out of compliance with this collateralization requirement if the value of the collateral falls below the 102% requirement at the close of business on settlement date.

K. Reverse Repurchase Agreement

1. Maximum term: One year.

2. Maximum total par value: $500 million. Maximum par value is limited to a combined total of reverse repurchase agreements and securities lending agreements of 20% of the base value of the portfolio.

3. Maximum par value per broker: $250 million.

4. Dealers limited to those primary dealers or those Nationally or State chartered banks that have a significant banking relationship with the County as defined in Government Code Section 53601(j)(4)(B) approved specifically by the Treasurer.

5. Agreements SHALL only be made for the purpose of enhancing investment revenue.

6. Agreements must be in accordance with approved written master repurchase agreement.

7. Securities eligible to be sold with a simultaneous agreement to repurchase

SHALL be limited to obligations of the U.S. Government and its agencies and instrumentalities.

8. The security to be sold on a reverse repurchase agreement SHALL have been owned and fully paid for by the Treasurer for a minimum of 30 days prior to sale.

9. The proceeds of the reverse repurchase agreement SHALL be invested in authorized instruments with a maturity less than 92 days unless the agreement includes a codicil guaranteeing a minimum earning or spread to maturity.

10. The proceeds of the reverse repurchase agreement SHALL be invested in instruments with maturities occurring at or before the maturity of the reverse repurchase agreement.

11. In no instance SHALL the investment from the proceeds of a reverse repurchase agreement be sold as part of a subsequent reverse repurchase agreement.

L. Forwards, Futures and Options

Forward contracts are customized contracts traded in the Over The Counter Market where the holder of the contract is OBLIGATED to buy or sell a specific amount of an underlying asset at a specific price on a specific future date.

Future contracts are standardized contracts traded on recognized exchanges where the holder of the contract is OBLIGATED to buy or sell a specific amount of an underlying asset at a specific price on a specific future date.

Option contracts are those traded in either the Over The Counter Market or recognized exchanges where the purchaser has the RIGHT but not the obligation to buy or sell a specific amount of an underlying asset at a specific price within a specific time period.

1. Maximum maturity: 90 days.

2. Maximum aggregate par value: $100 million.

3. Maximum par value per counterparty: $50 million. Counterparties for Forward

and Option Contracts limited to those on the approved Treasurer and Tax Collector list and must be rated “A” or better from at least one nationally recognized rating agency.

4. The underlying securities SHALL be an obligation of the U.S. Government and its agencies and instrumentalities.

5. Premiums paid to an option seller SHALL be recognized as an option loss at the time the premium is paid and SHALL not exceed $100,000 for each occurrence or exceed a total of $250,000 in any one quarter. Premiums received from an option purchase SHALL be recognized as an option gain at the time the premium is received.

6. Complex or hybrid forwards, futures or options defined as agreements combining two or more categories are prohibited unless specific written approval of the Treasurer is obtained PRIOR to entering into the agreement.

7. Open forward, future, and option contracts SHALL be marked to market weekly and a report SHALL be prepared by the Internal Controls Branch.

8. In conjunction with the sale of bonds, the Treasurer MAY authorize exceptions to maturity and par value limits for forwards, futures and options.

M. Interest Rate Swaps

Interest Rate Swaps SHALL be used only in conjunction with the sale of bonds approved by the Board of Supervisors. In accordance with Government Code Section 53534, these agreements SHALL be made only if all bonds are rated in one of the three highest rating categories by two nationally recognized rating agencies and only upon receipt, from any rating agency rating the bonds, of written evidence that the agreement will not adversely affect the rating.

Further, the counterparty to such an agreement SHALL be rated “A” or better from at least one nationally recognized rating agency selected by the Treasurer, or the counterparty SHALL provide an irrevocable letter of credit from an institution rated “A” or better from at least one nationally recognized rating agency acceptable to the Treasurer.

N. Securities Lending Agreement

Securities lending agreements are agreements under which the Treasurer agrees to transfer securities to a borrower who, in turn agrees to provide collateral to the Treasurer. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the Treasurer in return for the collateral.

1. Maximum term: 180 days.

2. Maximum par value: Maximum par value is limited to a combined total of reverse repurchase agreements and securities lending agreements of 20% of the base value of the portfolio.

3. Dealers limited to those primary dealers or those Nationally or State chartered banks that have a significant banking relationship with the County as defined in Government Code Section 53601(j)(4)(B) approved specifically by the Treasurer.

4. Agreements SHALL only be made for the purpose of enhancing investment revenue.

5. Securities eligible to be sold with a simultaneous agreement to repurchase SHALL be limited to obligations of the U.S. Government and its agencies and instrumentalities.

6. The security to be sold on securities lending agreement SHALL have been owned and fully paid for by the Treasurer for a minimum of 30 days prior to sale.

7. The proceeds of the securities lending agreement SHALL be invested in authorized instruments with a maturity less than 92 days unless the agreement includes a codicil guaranteeing a minimum earning or spread to maturity.

8. In no instance SHALL the investment from the proceeds of a securities lending agreement be sold as part of a subsequent reverse repurchase agreement or securities lending agreement.

O. Supranationals

Supranationals are multilateral lending institutions that provide development financing, advisory services and other financial services to their member countries to promote improved living standards through sustainable economic growth.

Supranational investments are U.S. dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by any of the supranational institutions identified in Government Code Section 53601(q), with a maximum remaining maturity of five years or less, and which are eligible for purchase and sale within the United States. Supranational investments shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO and shall not exceed 30% of the PSI portfolio.

1. Maximum maturity: Five years and limits outlined in Attachment I for issuer’s current credit rating.

2. Maximum total par value: 30% of the PSI portfolio.

3. Maximum par value per issuer: Per limits outlined in Attachment I for issuer’s current credit rating.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT 1 a.

MINIMUM CREDIT RATING
DOMESTIC ISSUERS

Investment Type	Maximum Maturity	S&P	Moody's	Fitch	Investment Limit
Bankers' Acceptance	180 days	A-1/AAA	P-1/Aaa	F1/AAA	$750MM
		A-1/AA	P-1/Aa	F1/AA	$600MM
		A-1/A	P-1/A	F1/A	$450MM, of which 50% may be over 90 days to a maximum of 180 days
Certificates of Deposit	3 years	A-1/AAA	P-1/Aaa	F1/AAA	$750MM, of which 50% may be over 180
		A-1/AA	P-1/Aa	F1/AA	$600MM, of which 50% may be over 180
		A-1/A	P-1/A	F1/A	$450MM, of which 50% may be over 90 days to a maximum of 180 days
Corporate Notes, Asset Backed Securities (ABS) and Floating Rate Notes (FRN)	Corporate: 3 years ABS: 5 years FRN: 5 years (1)	A-1/AAA	P-1/Aaa	F1/AAA	$750MM, of which 50% may be over 180
		A-1/AA	P-1/Aa	F1/AA	$600MM, of which 50% may be over 180
		A-1/A	P-1/A	F1/A	$450MM, of which 50% may be over 90 days to a maximum of 180 days

Note: All domestic issuers must attain the required ratings from at least two of the three Nationally Recognized Statistical Rating Organizations (S&P, Moody's, and Fitch).

(1) Seven years, if Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of $100 MM (million) par value may be greater than five years to maturity.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT 1 b.

MINIMUM CREDIT RATING
FOREIGN ISSUERS

Investment Type	Maximum Maturity	S&P	Moody's	Fitch	Investment Limit
Bankers' Acceptance	180 days	A-1/AAA	P-1/Aaa	F1/AAA	$600MM
		A-1/AA	P-1/Aa	F1/AA	$450MM
		A-1/A	P-1/A	F1/A	$300MM, of which 50% may be over 90 days to a maximum of 180 days.
Certificates of Deposit	3 years	A-1/AAA	P-1/Aaa	F1/AAA	$600MM, of which 50% may be over 180
		A-1/AA	P-1/Aa	F1/AA	$450MM, of which 50% may be over 180
		A-1/A	P-1/A	F1/A	$300MM, of which 50% may be over 90 days to a maximum of 180 days
Corporate Notes, Asset Backed Securities (ABS) and Floating Rate Notes (FRN) (1)	Corporate: 3 years ABS: 5 years FRN: 5 years (1)	A-1/AAA	P-1/Aaa	F1/AAA	$600MM, of which 50% may be over 180
		A-1/AA	P-1/Aa	F1/AA	$450MM, of which 50% may be over 180
		A-1/A	P-1/A	F1/A	$300MM, of which 50% may be over 90 days to a maximum of 180 days

Note: All foreign issuers must attain the required ratings from at least two of the three Nationally Recognized Statistical Rating Organizations (S&P, Moody's, and Fitch).

(1) Seven years, if Board of Supervisors' authorization to exceed maturities in excess of five years is in effect, of which a maximum of $100 MM (million) par value may be greater than five years to maturity.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT 1 c.

MINIMUM CREDIT RATING
SUPRANATIONAL ISSUERS

Issuer Rating (1)			**Limit (2)**
S&P	**Moody's**	**Fitch**	
AAA	Aaa	aaa	30% of PSI Portfolio, of which 20% of the PSI Portfolio may be between 2 and 5 years.
AA	Aa	aa	20% of PSI Portfolio, of which 10% of the PSI Portfolio may be between 2 and 5 years.

(1) The issuer must attain the required ratings from at least two of the three Nationally Recognized Statistical Rating Organizations (S&P, Moody's and Fitch).
(2) Maximum combined par value for all issuers is limited to 30% of the PSI portfolio.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHEMENT 1 d.

MINIMUM CREDIT RATING
COMMERCIAL PAPER

Maximum Maturity	S&P	Moody's	Fitch	Investment Limit
270 days	A-1/AAA A-1/AA A-1/A	P-1/Aaa P-1/Aa P-1/A	F1/AAA F1/AA F1/A	$1.5 Billion $1 Billion $750 MM

Note: The issuer must attain the required ratings from at least two of the three Nationally Recognized Statistical Rating Organizations (S&P, Moody's and Fitch).

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT II

LIMITATION CALCULATION FOR
INTERMEDIATE-TERM, MEDIUM-TERM AND LONG-TERM HOLDINGS
(Actual $)

Average Investment Balance and Available Cash (1)	$28,964,136,457
Less:	
▪ 50% of Discretionary Deposits (1)	($1,132,949,913.70)
Average Available Balance	$27,831,186,543
Multiplied by the Percent Available for Investment Over One Year	75%
Equals the Available Balance for Investment Over One Year	$20,873,389,908
Intermediate-Term (From 1 to 3 Years) ▪ One-third of the Available Balance for Investment	$6,957,796,636
Medium-Term and Long-Term (Greater Than 3 Years) ▪ Two-thirds of Available Balance for Investment (2)	$13,915,593,272

(1) 36 Month Average from January 2016 to December 2018.
(2) Any unused portion of the Medium-Term and Long-Term available balance may be used for Intermediate-Term investments.

County of Los Angeles
Treasurer and Tax Collector
Investment Policy
ATTACHMENT III

APPROVED LIST OF MUNICIPAL OBLIGATIONS

1. Any obligation issued or caused to be issued by the County of Los Angeles on its behalf or on behalf of other Los Angeles County affiliates. If on behalf of other Los Angeles County affiliates, the affiliate must have a minimum rating of “A3” (Moody’s) or “A-” (Standard and Poor’s or Fitch). The maximum maturity is limited to 30 years.

2. Any short- or medium-term obligation issued by the State of California or a California local agency with a minimum Moody’s rating of “MIG-1” or “A2” or a minimum Standard and Poor’s rating of “SP-1” or “A.” Maximum maturity limited to five years.

APPENDIX G

COUNTY INVESTMENT POOL MONTHLY REPORT

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THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The Treasurer and Tax Collector (the Treasurer) of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the Treasury Pool). As of August 31, 2019, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	$10.353
Schools and Community Colleges	14.523
Discretionary Participants	2.709
Total	$27.585

The Treasury Pool participation composition is as follows:

Non-discretionary Participants	90.17%
Discretionary Participants:	
Independent Public Agencies	9.34%
County Bond Proceeds and Repayment Funds	0.49%
Total	100.00%

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 19, 2019, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the Investment Report) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated September 30, 2019, the August 31, 2019, book value of the Treasury Pool was approximately $27.585 billion and the corresponding market value was approximately $27.595 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor’s staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. On a quarterly basis, the County’s outside independent auditor (External Auditor) reviews the cash and investment reconciliations for completeness and accuracy. Additionally, the External Auditor reviews investment transactions on a quarterly basis for conformance with the approved Investment Policy and annually accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of August 31, 2019:

Type of Investment	% of Pool
Certificates of Deposit	6.71
U.S. Government and Agency Obligations	66.53
Bankers Acceptances	0.00
Commercial Paper	26.21
Municipal Obligations	0.18
Corporate Notes & Deposit Notes	0.37
Repurchase Agreements	0.00
Asset Backed Instruments	0.00
Other	0.00
	100.00

The Treasury Pool is highly liquid. As of August 31, 2019, approximately 35% of the investments mature within 60 days, with an average of 552 days to maturity for the entire portfolio.