PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 29, 2019

NEW ISSUE — BOOK-ENTRY ONLY **Rating: Moody's: "Aa3"**
(See "MISCELLANEOUS – Rating" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Bonds. See "TAX MATTERS" herein.

$31,000,000*
PALMDALE SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2019

Dated: Date of Delivery **Due: August 1, as shown herein**

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Palmdale School District (Los Angeles County, California) General Obligation Bonds, Election of 2016, Series 2019 (the "Series 2019 Bonds") are issued by the Palmdale School District (the "District"), located in the County of Los Angeles, California (the "County"), (i) to finance specific projects approved by the voters of the District and (ii) to pay costs of issuance of the Series 2019 Bonds. The Series 2019 Bonds were authorized at an election of the voters of the District held on November 8, 2016, at which at least 55% of the voters voting on the proposition authorized the issuance and sale of $80,000,000 principal amount of bonds of the District. The Series 2019 Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution of the Board of Trustees of the District, adopted on October 15, 2019.

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series 2019 Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" herein.

The Series 2019 Bonds will be issued as current interest bonds as set forth on the inside front cover hereof. Interest on the Series 2019 Bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2020. Principal of the Series 2019 Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. The Series 2019 Bonds will be issued in denominations of $5,000 principal amount or any integral multiple thereof as shown on the inside front cover hereof.

The Series 2019 Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2019 Bonds. Individual purchases of the Series 2019 Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series 2019 Bonds purchased by them. See "THE SERIES 2019 BONDS – Form and Registration" herein. Payments of the principal of and interest on the Series 2019 Bonds will be made by U.S. Bank National Association, as agent for the Treasurer and Tax Collector of the County, the paying agent with respect to the Series 2019 Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See "THE SERIES 2019 BONDS – Payment of Principal and Interest" herein.

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

The Series 2019 Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District; and for the Underwriter by Kutak Rock LLP, Irvine, California, as Underwriter's Counsel. It is anticipated that the Series 2019 Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about November 19, 2019.

STIFEL

Dated: __________, 2019

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* *Preliminary; subject to change.*

MATURITY SCHEDULE*
BASE CUSIP†: 696735

$31,000,000*
PALMDALE SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2019

$__________ Serial Series 2019 Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
	$	%	%	

$__________ _____% Term Series 2019 Bonds due August 1, 20__ - Yield _____% CUSIP Number†

$__________ _____% Term Series 2019 Bonds due August 1, 20__ - Yield _____% CUSIP Number†

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* *Preliminary; subject to change.*

PALMDALE SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)

PROFESSIONAL SERVICES

Municipal Advisor

Mission Trail Advisors, LLC
Long Beach, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent

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

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2019 Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Series 2019 Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series 2019 Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2019 Bonds.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market prices of the Series 2019 Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series 2019 Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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$31,000,000*
PALMDALE SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2019

INTRODUCTION

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

General

This Official Statement, which includes the cover page, inside cover page, and appendices hereto, is provided to furnish information in connection with the sale of $31,000,000* aggregate principal amount of Palmdale School District (Los Angeles County, California) General Obligation Bonds, Election of 2016, Series 2019 (the "Series 2019 Bonds"), to be offered by the Palmdale School District (the "District").

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See "OTHER LEGAL MATTERS – Continuing Disclosure" and "APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2019 Bonds. Quotations from and summaries and explanations of the Series 2019 Bonds, the resolution of the Board of Trustees of the District providing for the issuance of the Series 2019 Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series 2019 Bonds.

Copies of documents referred to herein and information concerning the Series 2019 Bonds are available from the District by contacting: Palmdale School District, 39139 North 10th Street East, Palmdale, California 93550, Attention: Superintendent. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District was established in 1888 and is comprised of an area of approximately 70 square miles in the northern section of Los Angeles County (the "County"). The District is located in the high desert of the Antelope Valley, an area about 60 miles north of the City of Los Angeles. Virtually all of the City of Palmdale, as well as portions of the surrounding unincorporated areas of the County, is served in the

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* *Preliminary; subject to change.*

District. The District services students in grades kindergarten through eight and currently maintains 20 elementary schools, five middle schools, two dual immersion programs, one independent study program and an early childhood education program. There are currently two independent charter schools operating in the District, Antelope Valley Learning Academy and the Palmdale Aerospace Academy, which are District-authorized charter schools. The fiscal year 2019-20 student to teacher ratio in kindergarten through grade eight is approximately 29:1. The District's budgeted enrollment for fiscal year 2019-20 is approximately 18,341 students, and the District has a fiscal year 2019-20 assessed valuation of $10,436,940,183.

The District is governed by a Board of Trustees consisting of five publicly elected members and four nonvoting student members. The elected members are elected to four-year terms in staggered years. District day-to-day operations are managed by a board-appointed Superintendent of Schools. Mr. Raul Maldonado has served as Superintendent since May 2014. The District operates under the jurisdiction of the Los Angeles County Superintendent of Schools.

For additional information about the District, see APPENDIX A − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

THE SERIES 2019 BONDS

Authority for Issuance; Purpose

The Series 2019 Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIIIA of the California Constitution and pursuant to a resolution adopted by the Board of Trustees of the District on October 15, 2019 (the "Resolution").

At an election held on November 8, 2016, the District received authorization under Measure PSD to issue bonds of the District in an aggregate principal amount not to exceed $80,000,000 to update classrooms, labs and learning technology for the twenty-first century; repair leaky roofs and windows; improve school safety, security, energy and water efficiency; accommodate growing enrollment; and repair, construct, and acquire equipment for classrooms, sites and facilities (the "2016 Authorization"). Measure PSD required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 78.76%. The District previously issued its General Obligation Bonds, Election of 2016, Series 2017A (the "Series 2017A Bonds") under the 2016 Authorization in the aggregate principal amount of $28,500,000. The Series 2019 Bonds represent the second series of authorized bonds to be issued under the 2016 Authorization and will be issued (i) to finance specific projects approved by the voters of the District, and (ii) to pay costs of issuance of the Series 2019 Bonds. See "–Application and Investment of Series 2019 Bond Proceeds" and "– Estimated Sources and Uses of Funds." After the issuance of the Series 2019 Bonds, $20,500,000* will remain authorized but unissued under the 2016 Authorization.

Form and Registration

The Series 2019 Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 principal amount or integral multiples thereof. The Series 2019 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Series 2019 Bonds. Purchases of the

* *Preliminary; subject to change.*

Series 2019 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in the Series 2019 Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series 2019 Bonds, beneficial owners of the Series 2019 Bonds ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX G − "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

Interest. The Series 2019 Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing on February 1, 2020, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series 2019 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and on or prior to the succeeding Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Series 2019 Bond, interest is in default on any outstanding Series 2019 Bonds, such Series 2019 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series 2019 Bonds.

Payment of Series 2019 Bonds. The principal of the Series 2019 Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of U.S. Bank National Association, as agent of the Treasurer and Tax Collector of the County, as paying agent (the "Paying Agent"), at the maturity thereof or upon redemption prior to maturity.

Interest on the Series 2019 Bonds is payable in lawful money of the United States of America by wire on each Interest Payment Date (if a business day, or on the next business day if the Interest Payment Date does not fall on a business day) to the registered owner thereof (the "Owner") at such Owner's address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment will be made by wire transfer of immediately available funds to any Owner of at least $1,000,000 of outstanding Series 2019 Bonds who have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series 2019 Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX G − "BOOK-ENTRY ONLY SYSTEM."

Redemption*

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

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* *Preliminary; subject to change.*

Mandatory Sinking Fund Redemption. The $__________ term Series 2019 Bonds maturing on August 1, 20__, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

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

† Maturity.

The principal amount of the $__________ term Series 2019 Bonds maturing on August 1, 20__, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000, by any portion of such term Series 2019 Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The $__________ term Series 2019 Bonds maturing on August 1, 20__, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

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

† Maturity.

The principal amount of the $__________ term Series 2019 Bonds maturing on August 1, 20__, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000, by any portion of such term Series 2019 Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Series 2019 Bonds for Redemption. If less than all of the Series 2019 Bonds are called for redemption, the Series 2019 Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series 2019 Bonds of any one maturity are designated for redemption, the paying agent shall select the outstanding Series 2019 Bonds of such maturity to be redeemed by lot in any manner deemed fair by the paying agent. For purposes of such selection, each Series 2019 Bond shall be deemed to consist of individual Series 2019 Bonds of denominations of $5,000 principal amount, which may be separately redeemed.

Notice of Redemption. Notice of any redemption of the Series 2019 Bonds is to be mailed by the Paying Agent, postage prepaid, not less than 20 or more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the Registration Books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Series 2019 Bonds. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption is to contain the following information: (i) the date of such notice; (ii) the name of the Series 2019 Bonds and the date of issue of such Series 2019 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series 2019 Bonds to be redeemed; (vi) if less than all of the Series 2019 Bonds of any maturity are to be redeemed, the distinctive numbers of the Series 2019 Bonds of each maturity to be redeemed; (vii) in the case of Series 2019 Bonds redeemed in part only, the respective portions of the principal amount of the Series 2019 Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series 2019 Bonds to be redeemed; (ix) a statement that such Series 2019 Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Series 2019 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Series 2019 Bond or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption. Neither the failure to receive such notice of redemption, nor any defect in such notice is to affect the sufficiency of the proceedings for the redemption of such Series 2019 Bonds called for redemption or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above, and when the redemption price of the Series 2019 Bonds called for redemption is set aside for the purpose of redeeming the Series 2019 Bonds, the Series 2019 Bonds designated for redemption become due and payable on the specified redemption date and interest ceases to accrue thereon as of the redemption date, and upon presentation and surrender of such Series 2019 Bonds at the place specified in the notice of redemption, such Series 2019 Bonds are to be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series 2019 Bonds so called for redemption after such redemption date are entitled to payment of such Series 2019 Bonds and the redemption premium thereon, if any, only to moneys on deposit in the related interest and sinking fund of the District within the County treasury (the "Interest and Sinking Fund") or the trust fund established for such purpose. All Series 2019 Bonds redeemed are to be cancelled forthwith by the Paying Agent and are not to be reissued.

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

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

Defeasance of Series 2019 Bonds

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

Unclaimed Moneys

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

Application and Investment of Series 2019 Bond Proceeds

The proceeds of the Series 2019 Bonds are expected to be applied as follows:

PALMDALE SCHOOL DISTRICT
(LOS ANGELES COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2019

Estimated Sources and Uses of Funds

Sources of Funds:	
Aggregate Principal Amount of Series 2019 Bonds	$
[Plus/Less] [Net] Original Issue [Premium/Discount]	
Total Sources of Funds	$
Uses of Funds:	
Deposit to Building Fund	$
Costs of Issuance[(1)]	
Underwriter's Discount	
Deposit to Interest and Sinking Fund[(2)]	
Total Uses of Funds	$

(1) Includes legal fees, rating agency fees, municipal advisory fees, printing fees and other miscellaneous expenses.
(2) Consists of premium received by the District.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the Series 2019 Bonds less amounts necessary to pay costs of issuance, exclusive of any premium and accrued interest received by the District, will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund") and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series 2019 Bonds were authorized. Any premium or accrued interest on the Series 2019 Bonds received by the District will be deposited upon receipt in the related Interest and Sinking Fund of the District in the County treasury. Taxes collected to pay principal and interest on the Series 2019 Bonds will also be invested in the related Interest and Sinking Fund. Earning on the investment of moneys in either fund will be retained in that fund and used only for the purpose to which that fund may lawfully be applied. Moneys in the Building Fund may only be applied for the purposes for which the Series 2019 Bonds were authorized. Moneys in each Interest and Sinking Fund may only be applied to pay principal, interest and redemption premium, if any, on the Series 2019 Bonds and any other outstanding general obligation bonds of the District. See "– Outstanding Bonds." Interest and earnings on each fund will accrue to that fund.

All funds held by the County of Los Angeles Treasurer and Tax Collector (the "County Treasurer") in the Building Fund and each Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Series 2019 Bonds, are expected to be invested on behalf of the District by the County Treasurer at the County Treasurer's sole discretion in such investments as are authorized by Section 53601 and following of the California Government Code, consistent with the investment policy of the County. See APPENDIX E − "THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS" and APPENDIX F – "COUNTY OF LOS ANGELES INVESTMENT POLICY." In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund of the District may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the Series 2019 Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments. The District may direct that certain investments in the Building Fund of the District be deposited with a state or national bank or trust company located within the State or with the Federal Reserve Bank of San Francisco or any branch thereof within the State, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System in accordance with Sections 41015 and 41016 of the California Education Code.

Debt Service

Debt service on the Series 2019 Bonds, assuming no early optional redemption, is as set forth in the following table.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
General Obligation Bonds, Election of 2016, Series 2019

Period Ending August 1,	Principal	Interest	Total Debt Service
2020	$	$	$
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
Total:	$	$	$

Outstanding Bonds

In addition to the Series 2019 Bonds, the District has seven additional series of bonds outstanding, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Series 2019 Bonds.

2001 Authorization. At an election held on November 6, 2001, the District received authorization under Measure W to issue bonds of the District in an aggregate principal amount not to exceed $25,000,000 to reduce student overcrowding throughout the Palmdale School District, improve student safety, continue class size reduction; construct, furnish and equip two K-8 schools (one east and one west of 25th Street East) and renovate and build additional K-8 classrooms throughout the District (the "2001 Authorization"). Measure W required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 55.2%.

On March 7, 2002, the County, on behalf of the District, issued $21,128,370.80 aggregate initial principal amount of the District's General Obligation Bonds, Election of 2001, Series 2002 (the "Series 2002 Bonds") as the first series of the authorized bonds under the 2001 Authorization. On December 19, 2003, the County, on behalf of the District, issued $3,871,456.10 aggregate initial principal amount of the District's General Obligation Bonds, Election of 2001, Series 2003 (the "Series 2003 Bonds"), as the second and final series of the authorized bonds under the 2001 Authorization.

On October 4, 2011, the District issued $14,775,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds") which refunded the Series 2002 Bonds maturing in the years 2012 through 2023, inclusive.

On May 7, 2013, the District issued $2,985,000 aggregate principal amount of its General Obligation Refunding Bonds, Series 2013B (the "Series 2013B Refunding Bonds") which refunded the Series 2003 Bonds maturing in the years 2014 through 2027, inclusive.

2012 Authorization. The District received authorization under the 2012 Authorization to issue bonds of the District in an aggregate principal amount not to exceed $220,000,000. On May 7, 2013, the County, on behalf of the District, issued $42,240,000 aggregate principal amount of the District's General Obligation Bonds, Election of 2012, Series 2013A (the "Series 2013A Bonds") as the first series of authorized bonds to be issued under the 2012 Authorization. On May 17, 2017, the District issued $25,350,000 aggregate principal amount of the District's General Obligation Bonds, Election of 2012, Series 2017B (the "Series 2017B Bonds") as the second series of bonds to be issued under the 2012 Authorization. The amount of $152,410,000 remains unissued under the 2012 Authorization.

2016 Authorization. On May 17, 2017, the District issued $28,500,000 aggregate principal amount of its Series 2017A Bonds as the first series of bonds to be issued under the 2016 Authorization. Before the issuance of the Series 2019 Bonds, $51,500,000 remains outstanding under the 2016 Authorization.

A summary of the District's general obligation bonded debt, assuming no early redemptions, is set forth on the following page.

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Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District, assuming no early redemptions other than mandatory sinking fund payments.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
General Obligation Bonds − Aggregate Debt Service

	2001 Authorization				**2012 Authorization**		**2016 Authorization**		
Year Ending August 1	Series 2002 Bonds	Series 2003 Bonds	Series 2011 Refunding Bonds	Series 2013 Refunding Bonds	Series 2013A Bonds	Series 2017B Bonds	Series 2017A Bonds	Series 2019 Bonds	Total
2020	-	-	$1,670,855.00	$266,550.00	$1,656,456.26	$1,118,175.00	$1,056,937.50	$	$
2021	-	-	1,705,855.00	270,400.00	1,654,956.26	1,206,075.00	1,056,937.50		
2022	-	-	1,745,605.00	268,950.00	1,653,456.26	1,293,275.00	1,056,937.50		
2023	-	-	1,779,830.00	277,350.00	1,651,956.26	1,381,675.00	1,056,937.50		
2024	$1,920,000.00	-	-	290,300.00	1,650,456.26	1,476,075.00	1,056,937.50		
2025	1,960,000.00	-	-	292,650.00	1,648,956.26	1,571,075.00	1,056,937.50		
2026	2,000,000.00	-	-	299,037.50	1,912,456.26	1,400,325.00	1,056,937.50		
2027	2,040,000.00	-	-	304,587.50	1,987,612.50	1,426,575.00	1,056,937.50		
2028	-	$2,445,000.00	-	-	2,069,612.50	1,445,325.00	1,506,937.50		
2029	-	-	-	-	2,152,906.26	1,471,825.00	1,554,437.50		
2030	-	-	-	-	2,242,081.26	1,490,575.00	1,598,437.50		
2031	-	-	-	-	2,327,406.26	1,515,325.00	1,650,737.50		
2032	-	-	-	-	2,422,862.50	1,533,725.00	1,695,937.50		
2033	-	-	-	-	2,518,787.50	1,559,025.00	1,749,187.50		
2034	-	-	-	-	2,620,000.00	1,577,700.00	1,803,187.50		
2035	-	-	-	-	2,726,600.00	1,598,500.00	1,857,987.50		
2036	-	-	-	-	2,832,000.00	1,622,100.00	1,909,187.50		
2037	-	-	-	-	2,946,000.00	1,643,300.00	1,966,787.50		
2038	-	-	-	-	3,063,000.00	1,667,100.00	2,025,387.50		
2039	-	-	-	-	3,187,600.00	1,679,612.50	2,088,975.00		
2040	-	-	-	-	3,314,200.00	1,703,450.00	2,150,737.50		
2041	-	-	-	-	3,442,400.00	1,722,825.00	2,215,412.50		
2042	-	-	-	-	3,581,800.00	1,737,737.50	2,282,475.00		
2043	-	-	-	-	3,726,600.00	1,753,187.50	2,351,400.00		
2044	-	-	-	-	3,876,200.00	1,771,562.50	2,421,600.00		
2045	-	-	-	-	4,030,000.00	1,787,125.00	2,490,800.00		
2046	-	-	-	-	4,192,400.00	1,794,875.00	2,568,800.00		
2047	-	-	-	-	4,357,600.00	-	-		
2048	-	-	-	-	-	-	-		
2049	-	-	-	-	-	-	-		
Total:	$7,920,000.00	$2,445,000.00	$6,902,145.00	$2,269,825.00	$75,446,362.60	$41,948,125.00	$46,343,912.50	$	$

Source: Stifel, Nicolaus & Company, Incorporated.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on a school district's bonds, the board of supervisors of the county, the superintendent of schools of which has jurisdiction over such school district, is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by such school district, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the school district. The assessor of the county in which the school district lies must annually certify to the board of supervisors the assessed value of all taxable property in the county situated in the school district's boundaries. The board of supervisors must levy upon the property of the school district within its own county the rate of tax that will be sufficient to raise not less than the amount needed to pay the interest and any portion of the principal of the bonds that is to become due during the year.

Accordingly, the Board of Supervisors of the County must levy upon the property of the District the rate of tax that will be sufficient to provide sufficient funds for repayment of principal and interest when due on the Series 2019 Bonds. When collected, the tax revenues will be deposited by the County in the related Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District. Moneys in each Interest and Sinking Fund of the District will be invested by the County on behalf of the District in any one or more investments generally permitted to school districts authorized pursuant to Section 53601 *et seq.* or Section 53635 *et seq.* of the California Government Code by the County Treasurer and Tax Collector, and consistent with the investment policy of the County. See APPENDIX E – "THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS" and APPENDIX F – "COUNTY OF LOS ANGELES INVESTMENT POLICY."

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Series 2019 Bonds.

Statutory Lien on Taxes (Senate Bill 222)

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

The District has pledged all revenues from the *ad valorem* taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Series 2019 Bonds (collectively, the "Bonds"), of the District heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in each Interest and Sinking Fund of the District to the payment of the principal or redemption price of and interest on the related series of Bonds. The Resolution provides that the property taxes and amounts held in each Interest and Sinking Fund of the District shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in each Interest and Sinking Fund of the District to secure the payment of the Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The Resolution provides that this pledge constitutes an agreement between the District and the owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist, and the Bonds secured by the pledge are or were issued to finance (or refinance) one or more of the projects specified in the applicable voter-approved measure.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. School districts whose boundaries extend into more than one county are treated for property tax purposes as separate jurisdictions in each county in which they are located. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. Both the county auditor-controller and the county treasurer-tax collector have accounting responsibilities related to the collecting of property taxes. Once collected, the county auditor-controller apportions and distributes the taxes to the various taxing entities and related funds and accounts. The county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of bonds issued by school districts, and is charged with payment of principal and interest on the bonds when due, as *ex-officio* treasurer of the school district.

Assessed Valuation of Property Within the District

General. Taxable property located in the District has a fiscal year 2019-20 assessed value of $10,436,940,183. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the California Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

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

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

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

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The following table sets forth the assessed valuation of the various classes of property in the District's boundaries from fiscal years 2007-08 through 2019-20, each as of the date the equalized assessment roll is established in August of each year.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Assessed Valuations
Fiscal Years 2007-08 through 2019-20

Fiscal Year	Local Secured	Utility	Unsecured	Total	Percent Change
2007-08	$8,931,600,527	$1,895,598	$191,017,588	$ 9,124,513,713	16.77%
2008-09	9,212,209,815	1,862,152	205,783,616	9,419,855,583	3.24
2009-10	7,846,829,515	1,789,252	197,089,152	8,045,707,919	-14.59
2010-11	6,828,655,821	1,513,200	187,070,397	7,017,239,418	-12.78
2011-12	6,952,766,664	963,200	193,440,024	7,147,169,888	1.85
2012-13	6,830,853,312	963,200	226,620,746	7,058,437,258	-1.24
2013-14	7,046,795,569	963,200	231,006,662	7,278,765,431	3.12
2014-15	7,596,013,892	963,200	230,265,460	7,827,242,552	7.54
2015-16	8,175,813,398	963,200	228,928,690	8,405,805,288	7.39
2016-17	8,582,495,454	963,200	240,083,117	8,823,541,771	4.97
2017-18	9,050,424,583	834,149	250,083,968	9,301,342,700	5.42
2018-19	9,576,759,375	834,149	268,206,816	9,845,800,340	5.85
2019-20	9,952,203,688	834,149	483,902,346	10,436,940,183	6.00

Source: California Municipal Statistics, Inc.; percent change provided by Stifel, Nicolaus & Company, Incorporated.

Risk of Decline in Property Values. Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, landslide, liquefaction, levee failure, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also "*−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" below.

Risk of Changing Economic Conditions; Risk of Earthquake. Property values could be reduced by factors beyond the District's control, including an earthquake, or a depressed real estate market due to general economic conditions in the County, the region, and the State. The District is located in a seismically active region. Active earthquake faults include the San Andreas Fault that runs throughout the County.

Drought. In recent years California has experienced severe drought conditions. In January 2014, the Governor declared a state-wide Drought State of Emergency due to the State facing serious water shortfalls due to the driest year in recorded history in the State and the resultant record low levels measured in State rivers and reservoirs. The California State Water Resources Control Board (the "State Water Board") subsequently issued a Statewide notice of water shortages and potential future curtailment of water right diversions. In April 2017, the Governor of the State lifted the drought emergency declaration, while retaining a prohibition on wasteful practices and advancing conservation measures. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

Wildfire. In recent years, portions of California, including the County and adjacent counties, have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures. Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District.

It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

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

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

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

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

See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As an elementary school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2019-20 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $130.46 million and its net bonding capacity is approximately $31.91 million (taking into account current outstanding debt before issuance of the Series 2019 Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Assessed Valuation by Jurisdiction. The following table describes the percentage and value of the total assessed valuation of the property within the District's boundaries that reside in the city of Palmdale and unincorporated portions of the County for fiscal year 2019-20.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
2019-20 Assessed Valuation by Jurisdiction

Jurisdiction	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Palmdale	$9,887,533,711	94.74%	$ 13,667,974,103	72.34%
Unincorporated Los Angeles County	549,406,472	5.26	111,408,534,823	0.49
Total District	$10,436,940,183	100.00%		
Los Angeles County	$10,436,940,183	100.00%	$1,612,990,196,814	0.65

Source: California Municipal Statistics Inc.

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2019-20 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
2019-20 Assessed Valuation and Parcels by Land Use

	2019-20 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	$ 2,594,890	0.03%	36	0.09%
Commercial	1,361,410,193	13.68	686	1.75
Vacant Commercial	140,201,369	1.41	470	1.20
Industrial	515,829,908	5.18	209	0.53
Vacant Industrial	103,849,772	1.04	574	1.46
Recreational	41,276,642	0.41	26	0.07
Government/Social/Institutional	300,692,145	3.02	248	0.63
Vacant Miscellaneous/Desert	87,031,564	0.87	1,156	2.94
Subtotal Non-Residential	$2,552,886,483	25.65%	3,405	8.67%
Residential:				
Single Family Residence	$6,615,499,168	66.47%	31,111	79.24%
Condominium/Townhouse	165,302,018	1.66	1,279	3.26
Mobile Home	6,253,013	0.06	39	0.10
Mobile Home Park	16,815,455	0.17	15	0.04
2-4 Residential Units	73,256,341	0.74	336	0.86
5+ Residential Units/Apartments	338,686,418	3.40	175	0.45
Vacant Residential	183,504,792	1.84	2,904	7.40
Subtotal Residential	$7,399,317,205	74.35%	35,859	91.33%
Total	$9,952,203,688	100.00%	39,264	100.00%

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

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2019-20, including the median and average assessed valuation of single family parcels.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
2019-20 Per Parcel Assessed Valuation of Single Family Homes

	No. of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	31,111	$6,615,499,168	$212,642	$201,957

2019-20 Assessed Valuation	No. of Parcels[1]	Percent of Total	Cumulative Percent of Total	Total Valuation	Percent of Total	Cumulative Percent of Total
$0 - $24,999	56	0.180%	0.180%	$ 736,998	0.011%	0.011%
$25,000 - $49,999	343	1.103	1.283	13,441,006	0.203	0.214
$50,000 - $74,999	777	2.498	3.780	49,915,706	0.755	0.969
$75,000 - $99,999	1,485	4.773	8.553	130,929,736	1.979	2.948
$100,000 - $124,999	2,394	7.695	16.248	271,329,221	4.101	7.049
$125,000 - $149,999	3,198	10.279	26.528	441,466,218	6.673	13.723
$150,000 - $174,999	3,556	11.430	37.958	577,644,752	8.732	22.454
$175,000 - $199,999	3,483	11.195	49.153	652,601,373	9.865	32.319
$200,000 - $224,999	3,130	10.061	59.214	663,637,769	10.032	42.351
$225,000 - $249,999	2,967	9.537	68.751	705,150,328	10.659	53.010
$250,000 - $274,999	2,650	8.518	77.268	694,886,613	10.504	63.514
$275,000 - $299,999	2,046	6.576	8.845	585,504,413	8.850	72.364
$300,000 - $324,999	1,654	5.316	89.161	515,448,474	7.792	80.156
$325,000 - $349,999	1,184	3.806	92.967	398,105,447	6.018	86.173
$350,000 - $374,999	771	2.478	95.445	278,667,966	4.212	90.386
$375,000 - $399,999	501	1.610	97.056	193,800,227	2.929	93.315
$400,000 - $424,999	319	1.025	98.081	131,248,848	1.984	95.299
$425,000 - $449,999	189	0.608	98.689	82,353,242	1.245	96.544
$450,000 - $474,999	120	0.386	99.074	55,300,089	0.836	97.380
$475,000 - $499,999	65	0.209	99.283	31,678,269	0.479	97.859
$500,000 and greater	223	0.717	100.000	141,652,473	2.141	100.000
Total		100.000%		$6,615,499,168	100.000%	

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

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2019-20 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Largest 2019-20 Local Secured Taxpayers

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	Percent of Total[(1)]
1.	Lockheed Corp.	Industrial	$ 251,888,170	2.53%
2.	Lancaster Hospital Corporation	Hospital	249,988,589	2.51
3.	Antelope Valley Mall LLC	Shopping Center	131,595,353	1.32
4.	MGP X Properties LLC	Shopping Center	103,312,407	1.04
5.	Wal Mart Real Estate Business	Shopping Center	52,085,098	0.52
6.	Golden Spectrum Property LLC	Shopping Center	45,297,360	0.46
7.	38300 30th Street Multi LLC	Apartments	41,435,971	0.42
8.	W2005 Fargo Hotels Realty LP	Hotel	30,393,855	0.31
9.	Lowes HIW Inc.	Shopping Center	28,947,320	0.29
10.	Target Corporation	Shopping Center	24,459,036	0.25
11.	Northrop Grumman	Industrial	23,913,259	0.24
12.	Sierra Commons SPE LLC, Lessor	Commercial	23,228,556	0.23
13.	CC Knollview LLC	Apartments	22,988,730	0.23
14.	Forest City Harris AVM LLC	Shopping Center	21,464,083	0.22
15.	Time Warner Cable	Communications	21,376,114	0.21
16.	Palmdale Tod Apartments LP	Apartments	21,335,330	0.21
17.	Palmdale Lodging Associates LLC	Hotel	20,219,381	0.20
18.	Lisa G. Quateman	Commercial	19,741,062	0.20
19.	SNR 24 Rancho Village Owner LLC	Assisted Living Facility	19,597,746	0.20
20.	Coast United Advertising Co. Inc.	Commercial	18,958,741	0.19
			$1,172,226,161	11.78%

(1) 2019-20 local secured assessed valuation: $9,952,203,688
Source: California Municipal Statistics, Inc.

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

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Series 2019 Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2019 Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series 2019 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 11447). This Tax Rate Area comprises approximately 3.02% of the total fiscal year 2019-20 assessed value of the District.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 11447)
Fiscal Years 2015-16 through 2019-20

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
General	$1.000000	$1.000000	$1.000000	$1.000000	$1.000000
Palmdale School District	0.049734	0.038188	0.075344	0.072113	0.070585
Antelope Valley Joint Union High School District	0.024284	0.024737	0.023569	0.023167	0.021873
Antelope Valley Joint Community College District	0.025558	0.025602	0.048687	0.048467	0.047220
Antelope Valley-East Kern Water Agency	0.070490	0.070490	0.070490	0.070490	0.070490
Total All Property	$1.170066	$1.159017	$1.218090	$1.214237	$1.210168

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2016 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2016 Authorization will require a tax rate no greater than $30.00 per $100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2019 Bonds, the District projects that the maximum tax rate required to repay the Series 2019 Bonds and all other outstanding bonds approved at the 2016 Authorization, will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2019 Bonds and any other series of bonds issued under the 2016 Authorization in each year.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series 2019 Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer. The County has not adopted the “Teeter Plan” alternative method for collection of taxes and, therefore, such alternative method 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.

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

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

The following tables set forth real property tax charges and corresponding delinquencies for the 1% general fund apportionment, with respect to property located in the County, and for the District’s general obligation bond debt service levy, with respect to the property located in the District, for fiscal years 2014-15 through 2018-19.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2014-15 through 2018-19

Fiscal Year	Secured Tax Charge[1]	Amount Delinquent June 30	Percentage Delinquent June 30
2014-15	$3,895,529.19	$56,361.98	1.45%
2015-16	4,189,081.03	59,708.55	1.43
2016-17	5,236,674.21	62,514.90	1.19
2017-18	5,551,248.29	69,318.48	1.25
2018-19	4,905,798.73	67,356.55	1.37

Fiscal Year	Secured Tax Charge[2]	Amount Delinquent June 30	Percentage Delinquent June 30
2014-15	$3,504,383.94	$61,831.68	1.76%
2015-16	4,028,450.93	58,850.91	1.46
2016-17	3,274,926.34	33,708.30	1.03
2017-18	6,890,037.54	90,322.67	1.31
2018-19	6,852,960.36	94,810.20	1.38

[1] 1% General Fund apportionment. Excludes redevelopment agency impounds. Reflects county-wide delinquency rate.
[2] Bond debt service levy only.
Source: California Municipal Statistics, Inc.

Certain counties in the State 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.

Direct and Overlapping Debt

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective September 24, 2019 for debt outstanding as of October 1, 2019. The table is included for general information purposes only. Neither the District nor the Underwriter has reviewed this table for completeness or accuracy and make no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

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PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Statement of Direct and Overlapping Bonded Debt

September 24, 2019

2019-20 Assessed Valuation: $10,436,940,183

	% Applicable	Debt 10/1/19
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:		
Antelope Valley Joint Community College District	27.997%	$ 74,221,078
Antelope Valley Union High School District	31.688	15,641,157
Palmdale School District	100.000	98,549,827[1]
Palmdale School District Community Facilities District No. 90-1	100.000	56,483,773
Antelope Valley-East Kern Water Agency Community Facilities District No. 90-1	40.626	932,367
City of Palmdale Community Facilities Districts	100.000	18,185,000
Los Angeles County Regional Park and Open Space Assessment Districts	73.393-82.070	8,607,772
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$272,620,974
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Los Angeles County General Fund Obligations	0.647%	$15,349,972
Los Angeles County Superintendent of Schools Certificates of Participation	0.647	33,530
Palmdale School District Certificates of Participation	100.000	18,225,034
City of Palmdale Certificates of Participation and Parks Lease Revenue Bonds	72.341	44,001,730
Los Angeles County Sanitation District No. 14 Authority	1.553	12,011
Los Angeles County Sanitation District No. 20 Authority	95.038	612,847
Antelope Valley Healthcare District General Fund Obligations	29.871	3,396,036
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$81,631,160
OVERLAPPING TAX INCREMENT DEBT:		
Successor Agency to Palmdale Redevelopment Agency Merged Project Area	72.167	$47,712,359
TOTAL OVERLAPPING TAX INCREMENT DEBT		$47,712,359
COMBINED TOTAL DEBT		$401,964,493[2]

Ratios to 2019-20 Assessed Valuation:
Direct Debt ($98,549,827)..0.94%
Total Gross Direct and Overlapping Tax and Assessment Debt 2.61%
Combined Direct Debt ($116,774,861)..1.12%
Combined Total Debt..3.85%

Ratios to Redevelopment Incremental Valuation ($4,515,292,683):
Total Overlapping Tax Increment Debt 1.06%

[1] Excludes the Series 2019 Bonds.
[2] Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2019 Bonds is less than the amount to be paid at maturity of such Series 2019 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2019 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2019 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2019 Bonds is the first price at which a substantial amount of such maturity of the Series 2019 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2019 Bonds accrues daily over the term to maturity of such Series 2019 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2019 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2019 Bonds. Beneficial Owners of the Series 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2019 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2019 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2019 Bonds is sold to the public.

Series 2019 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2019 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2019 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2019 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2019 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2019 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2019 Bonds.

Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 2019 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2019 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2019 Bonds. Prospective purchasers of the Series 2019 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2019 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2019 Bonds ends with the issuance of the Series 2019 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series 2019 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2019 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2019 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series 2019 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Series 2019 Bonds at the time of issuance substantially in the form set forth in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriter by Kutak Rock LLP.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series 2019 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than 270 days following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than March 26, 2020) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D − "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission.

In the past five years, the District failed to timely file its audited financial statements for fiscal year 2013-14 and its annual report with respect to the Series 2003 Bonds.

Mission Trail Advisors, LLC currently serves as the District's dissemination agent in connection with its prior undertakings and has been engaged by the District as its dissemination agent for its undertakings relating to the Series 2019 Bonds.

Litigation

The District is occasionally subject to lawsuits and claims. No litigation is pending or threatened concerning or contesting the validity of the Series 2019 Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Series 2019 Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series 2019 Bonds or District officials who will sign certifications relating to the Series 2019 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter (defined herein) at the time of the original delivery of the Series 2019 Bonds.

MISCELLANEOUS

Rating

Moody's Investors Service, Inc. has assigned a rating of "Aa3" to the Series 2019 Bonds. A rating agency generally bases its rating on its own investigations, studies and assumptions as well as information and materials furnished to it (which may include information and materials from the District, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series 2019 Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, 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 2019 Bonds. Neither the Underwriter (defined below) nor the District has undertaken any responsibility after the offering of the Series 2019 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Series 2019 Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series 2019 Bonds. Mission Trail Advisors, LLC is acting as the District's Municipal Advisor with respect to the Series 2019 Bonds. Kutak Rock LLP is acting as Underwriter's Counsel with respect to the Series 2019 Bonds and will receive compensation from the Underwriter. Payment of the fees and expenses of the Municipal Advisor and Underwriter's Counsel is also contingent upon the sale and delivery of the Series 2019 Bonds. From time to time, Bond Counsel represents the Underwriter (defined herein) on matters unrelated to the Series 2019 Bonds.

Municipal Advisor

Mission Trail Advisors, LLC, in its capacity as Municipal Advisor, is not contractually obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement, and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2019 Bonds, or the possible impacts of any present, pending or future actions taken by any legislative or judicial bodies that may affect the Series 2019 Bonds.

Financial Interests

While the Underwriter (defined below) does not believe that the following represents a potential or actual material conflict of interest, the Underwriter notes that it made a contribution to the Second Annual Palmdale School District Foundation Dinner in January 2019.

Underwriting

The Series 2019 Bonds are being purchased for reoffering to the public by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"), pursuant to the terms of a bond purchase agreement executed on __________, 2019 (the "Purchase Agreement"), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Series 2019 Bonds at a price of $__________ (which represents the aggregate principal amount of the Series 2019 Bonds, [plus/less] [net] original issue [premium/discount] of $__________, and less an Underwriter's discount in the amount of $__________). The Purchase Agreement provides that the Underwriter will purchase all of the Series 2019 Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2019 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

ADDITIONAL INFORMATION

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series 2019 Bonds.

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

PALMDALE SCHOOL DISTRICT

By: ____________________________________
Superintendent

APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Palmdale School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series 2019 Bonds is payable from the general fund of the District or from State revenues. The Series 2019 Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County of Los Angeles (the "County") on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series 2019 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" in the front portion of the Official Statement.

THE DISTRICT

Introduction

The District was established in 1888 and is comprised of an area of approximately 70 square miles in the northern section of Los Angeles County (the "County"). The District is located in the high desert of the Antelope Valley, an area about 60 miles north of the City of Los Angeles. Virtually all of the City of Palmdale, as well as portions of the surrounding unincorporated areas of the County, is served in the District. The District services students in grades kindergarten through eight and currently maintains 20 elementary schools, five middle schools, two dual immersion programs, one independent study program and an early childhood education program. There are currently two independent charter schools operating in the District, Antelope Valley Learning Academy and the Palmdale Aerospace Academy, which are District-authorized charter schools. The fiscal year 2019-20 student to teacher ratio in kindergarten through grade eight is approximately 29:1. The District's budgeted enrollment for fiscal year 2019-20 is approximately 18,341 students, and the District has a fiscal year 2019-20 assessed valuation of $10,436,940,183.

Board of Trustees

The District is governed by a Board of Trustees consisting of five publicly elected members. The elected members are elected to four-year terms in staggered years. District day-to-day operations are managed by a board-appointed Superintendent of Schools. Current members of the Board, together with their office and the date their current term expires, are set forth in the table on the following page.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)

Board of Trustees

Name	Office	Term Expires
Sharon Vega	President	November 2020
Ralph Velador	Clerk	November 2022
Nancy Smith	Member	November 2022
Dennis Trujillo	Member	November 2020
Simone Zulu-Diol	Member	November 2022

Superintendent and Business Services Personnel

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

Raul Maldonado, Superintendent of Schools. Raul Maldonado was named Superintendent of Schools for the District in May 2014. Mr. Maldonado is well known throughout California as an innovative and inspirational leader. He is experienced in transforming school and district culture and has a proven record of improving student achievement. He sets high expectations, strategically allocates resources, and provides continuous support and multiple opportunities for collaboration, and he holds high expectations for all stakeholders. He believes all students should receive the best educational opportunities utilizing a rigorous curriculum delivered using effective research-based strategies and 21st century skills that will prepare students to be successful and to graduate college and be career ready. Recently, Mr. Maldonado has been working on developing "Pathways" by collaborating with high school programs. Mr. Maldonado earned his Multiple Subject Credential and Master's degree in School Administration from Cal State University, Los Angeles.

Frances Ufondu, Ed.D., Assistant Superintendent, Business Services. Frances Ufondu, Ed.D was appointed the Assistant Superintendent of Business Services in the District on July 1, 2017. Previously, she coordinated the LCAP of the District, State and Federal Programs, Parent/Community Outreach and the GATE program. Her duties cut across all departments and schools to ensure increased academic achievement for all students. She worked with all stakeholders to develop the District LCAP and create school environments that improve student engagement and learning. Dr. Ufondu has been a school administrator for over 17 years. Through her educational journey of serving students at all levels and emphasizing access and equity, she practices shared leadership, models high expectations and systems approach to ensure all students have rigorous standards and instruction. Dr. Ufondu is an active leader in the community. She received her Bachelor's degree in Vocational Home Economics Education from the University of Nigeria Nsukka, her Master's degree in Educational Administration from the University of Benin, Nigeria and her Doctorate in Organizational Leadership from the University of La Verne, California. Dr. Ufondu also holds a certificate in accounting for Governmental and Nonprofit Organizations from the University of California, Riverside. Dr. Ufondu completed the training requirements for CASBO certification as a Chief Business Official in November 2018.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") (see "− *Allocation of State Funding to School Districts; Local Control Funding Formula*") and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "− Local Sources of Education Funding"). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has budgeted to receive approximately 78.34% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately $190.25 million in fiscal year 2019-20. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*−Allocation of State Funding to School Districts; Local Control Funding Formula,*" "*–Attendance and LCFF*" and "Other District Revenues – *Other State Revenues*" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

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

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

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two–thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2019-20 State budget on June 27, 2019.

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

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

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

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

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

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series 2019 Bonds, and the District takes no responsibility for informing owners of the Series 2019 Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, **www.dof.ca.gov**, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at **www.lao.ca.gov**. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, **www.treasurer.ca.gov**. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2019-20 State Budget. The Governor signed the fiscal year 2019-20 State Budget (the "2019-20 State Budget") on June 27, 2019. The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately $143.8 billion in revenues, and $91.9 billion in non-Proposition 98 expenditures and $55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a $1.4 billion reserve in the Special Fund for Economic Uncertainties. To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a $3.15 billion non-Proposition 98 General Fund payment to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") Schools Pool. Of this amount, an estimated $850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of $103.4 billion ($58.8 billion General Fund and $44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides $1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of $376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately $2.1 billion).

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

- <u>Special Education</u>. The 2019-20 State Budget includes $645.3 million ongoing Proposition 98 General Fund resources for special education, including $152.6 million to provide for all Special Education Local Plan Areas with at least the statewide target rate for base special education funding, and $492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.

- <u>After School Education and Safety Program</u>. The 2019-20 State Budget includes $50 million ongoing Proposition 98 General Fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.

- <u>Longitudinal Data System</u>. The 2019-20 State Budget includes $10 million one-time non-Proposition 98 General Fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.

- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes $89.8 million one-time non-Proposition 98 General Fund resources to provide up to 4,487 grants of $20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years. The 2019-20 State Budget also includes $43.8 million one-time non-Proposition 98 General Fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes $13.8 million ongoing federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.

- Broadband Infrastructure. The 2019-20 State Budget includes $7.5 million one-time non-Proposition 98 General Fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.

- School Facilities Bond Funds. The 2019-20 State Budget assumes $1.5 billion Proposition 51 bond funds, an increase of $906 million over the prior year, to support school construction projects.

- Full-Day Kindergarten. The 2019-20 State Budget includes $300 million one-time non-Proposition 98 General Fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.

- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of $686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.

- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of $36 million one-time Proposition 98 General Fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.

- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of $2 million one-time Proposition 98 General Fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, the 2019-20 State Budget includes an increase of $727,000 one-time Proposition 98 General Fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

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

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

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

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

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

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

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

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2019-20, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to $8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to $7,818 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to $8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to $9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes a costs of living adjustment of 3.26% authorized by the 2019-20 State Budget.

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.

- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation in fiscal year 2018-19, LEAs now receive the greater of the Base Grant or the ERT.

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

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

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

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

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Attendance and LCFF. The following table sets forth the District's actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, "EL/LI Students")), and targeted Base Grant per unit of A.D.A. for fiscal years 2014-15 through 2019-20, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education but exclude adult education and preschool attendance.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Average Daily Attendance, Enrollment and Targeted Base Grant
Fiscal Years 2014-15 through 2019-20

		A.D.A./Base Grant				Enrollment(10)	
Fiscal Year		K-3	4-6	7-8	Total A.D.A.	Total Enrollment	Unduplicated Percent of EL/LI Students
2014-15	A.D.A.(1):	8,487.29	6,240.34	3,616.46	18,344.09	19,247	87.10%
	Targeted Base Grant(2)(3):	$7,740	$7,116	$7,328	--	--	--
2015-16	A.D.A.(1):	8,306.34	6,329.66	3,558.17	18,194.17	19,072	87.48%
	Targeted Base Grant(2)(4):	$7,820	$7,189	$7,403	--	--	--
2016-17	A.D.A.(1):	8,367.14	6,453.95	3,356.19	18,177.28	19,127	87.20%
	Targeted Base Grant(2)(5):	$7,820	$7,189	$7,403	--	--	--
2017-18	A.D.A.(1):	8,338.07	6,104.83	3,339.51	17,782.41	18,694	87.79%
	Targeted Base Grant(2)(6):	$7,941	$7,301	$7,518	--	--	--
2018-19	A.D.A.(1):	8,286.41	6,103.73	3,797.88	18,188.02	19,083	87.77%
	Targeted Base Grant(2)(7):	$8,235	$7,571	$7,796	--	--	--
2019-20(8)	A.D.A.(8):	8,025.51	5,720.11	3,734.98	17,480.58	18,341	88.11%
	Targeted Base Grant(2)(9):	$8,503	$7,818	$8,050	--	--	--

(1) A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a "material decrease" in attendance or attendance at Saturday school.
(2) Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.
(3) Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.
(4) Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.
(5) Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.
(6) Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.
(7) Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This "super COLA" amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.
(8) Figures are estimates. Declining enrollment reflects the enrollment of students at charter schools in the District.
(9) Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.
(10) Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System ("CALPADS") for the 2015-16 through 2017-18 school year. For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI Students was expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI Students was based on a rolling average of such school district's EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
Source: Palmdale School District.

The District received approximately $194.65 million (unaudited) in aggregate revenues reported under LCFF sources in fiscal year 2018-19, and has budgeted to receive approximately $195.21 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 80.38% of its general fund revenues in fiscal year 2019-20). Such amount includes supplemental grants and concentrated grants for targeted groups of $25.29 million (unaudited) and $23.60 million (unaudited), respectively, in fiscal year 2018-19, and are budgeted to be $25.46 million and $23.92 million, respectively, in fiscal year 2019-20.

Local Sources of Education Funding

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

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

Local property tax revenues account for approximately 7.33% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately $14.30 million, or 5.89% of total general fund revenues in fiscal year 2019-20.

For information about the property taxation system in California and the District's property tax base, see "–Property Taxation System," "–Assessed Valuation of Property Within the District," and "–Tax Charges and Delinquencies," under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS" in the front portion of the Official Statement.

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

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

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

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 8.74% (or approximately $21.23 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 3.85% (or approximately $9.34 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is budgeted at approximately $3.73 million for fiscal year 2019-20.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 7.03% (or approximately $17.08 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There are currently two independent charter schools operating in the District, Antelope Valley Learning Academy and the Palmdale Aerospace Academy, which are District-authorized charter schools. Antelope Valley Learning Academy and Palmdale Aerospace Academy serve students in grades K-12. The aggregate enrollment at such charter schools for fiscal year 2018-19 was approximately 3,380 students and the aggregate enrollment at such charter schools for fiscal year 2019-20 is budgeted to be approximately 4,073 students. Palmdale Aerospace Academy previously served students in grades 6-12, but expanded in fiscal year 2019-20 to serve students in grades TK-5. The District expects that enrollment at these charter schools may increase in future years, which may impact enrollment in the District.

Guidance Charter School, a former independent charter school that operated in the District beginning in 2001, closed through non-renewal at the end of fiscal year 2017-18. A non-District charter school is considering for purchase the Guidance Charter School's former building. Additionally, on October 25, 2019, the District received a petition from Scholarship Prep Charter School to operate within the District. Scholarship Prep Charter School anticipates opening in 2021 with a projected enrollment of approximately 540 students in grades TK-8 for fiscal year 2020-21. Student enrollment at charter schools may impact enrollment in the District. However, the District cannot make any predictions as to whether the petition for Scholarship Prep Charter School will be approved. In addition, the District cannot provide any assurances whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's finances in future years.

Significant Accounting Policies and Audited Financial Reports

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

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following table contains data abstracted from financial statements prepared by the District's independent auditor, Vavrinek, Trine, Day & Co. LLP, Certified Public Accountants & Consultants, Rancho Cucamonga, California for fiscal years 2013-14 through 2017-18.

Vavrinek, Trine, Day & Co. LLP has not been requested to consent to the use or to the inclusion of its reports in this Official Statement, and it has not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

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

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
REVENUES					
LCFF sources	$120,330,813	$143,475,550	$161,661,054	$175,174,110	$175,110,032
Federal sources	11,896,767	12,758,172	12,594,110	14,720,929	17,769,111
Other State sources	11,454,595	13,566,280	23,767,226	20,831,930	20,517,295
Other local revenues	22,294,901	19,734,350	18,901,589	17,100,751	22,540,599
Total Revenues	165,977,076	189,534,352	216,923,979	227,827,720	235,937,037
EXPENDITURES					
Current					
Instruction	95,830,331	108,374,631	116,328,133	129,462,282	136,684,951
Instruction-related activities:					
Supervision of instruction	5,666,357	7,831,819	10,860,972	11,876,888	14,801,782
Instructional library, media and technology	848,293	1,983,363	2,696,743	2,339,243	3,009,256
School site administration	9,177,108	12,129,726	11,990,308	12,421,779	14,162,502
Pupil services:					
Home-to-school transportation	4,097,218	3,829,948	6,338,500	12,247,800	12,381,404
Food services	7,897	8,594	11,584	18,567	34,449
All other pupil services	12,188,351	11,726,464	15,285,592	18,054,562	20,423,125
Administration:					
Data processing	1,973,875	2,093,019	4,444,959	8,019,524	5,179,918
All other administration	8,705,322	8,207,460	9,511,958	9,803,932	11,423,998
Plant services	14,466,803	14,585,538	16,505,979	17,880,460	19,767,087
Facility acquisition and construction	50,654	1,633,066	177,507	115,494	2,081,899
Ancillary services	119,198	151,687	166,927	120,217	127,166
Community services	463,252	907,628	1,135,128	1,222,523	1,211,604
Other outgo	9,488,383	8,195,246	1,659,798	286,794	261,675
Debt service					
Principal	251,748	263,328	275,441	1,062,243	880,300
Interest and other	558,700	51,900	39,787	27,116	334,794
Total Expenditures	163,893,490	181,973,417	197,429,316	224,859,424	242,765,910
(Deficiency) of Revenues Over Expenditures	2,083,586	7,560,935	19,494,663	2,968,296	(6,828,873)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Other sources[1]	-	-	-	6,723,382	138,000
Transfers out[2]	-	-	(303,712)	(1,971,071)	(970,547)
Other uses	-	-	-	-	-
Net Financing Sources (Uses)	-	-	(303,712)	4,752,311	(832,547)
Special Item					
Proceeds from Sale of Land	2,600,000	-	-	-	-
NET CHANGE IN FUND BALANCES	4,683,586	7,560,935	19,190,951	7,720,607	(7,661,420)
Fund Balances - Beginning	34,201,809	38,885,395	46,446,330	65,637,281	73,357,888
Fund Balances – Ending	$38,885,395	$46,446,330	$65,637,281[3]	$73,357,888	$65,696,468

[1] Capital assets financed from capital leases are reported in the General Fund as a source of financing.
[2] Transfers out in fiscal year 2015-16 reflect transfers to the Child Development Non-Major Governmental Fund to cover operating costs. Inter-fund transfers out in fiscal years 2016-17 and 2017-18 reflect transfers to Fund 21 for qualifying project costs related to the California Clean Energy Jobs Act.
[3] The District's General Fund increased from $46.4 million in fiscal year 2014-15 to $65.6 million in fiscal year 2015-16 due in large part to one-time revenues received during the reporting period and additional LCFF sources. In addition, the fiscal year 2015-16 projected expenditures for restricted programs did not fully materialize, which resulted in an increase in the restricted ending fund balance.
Source: Palmdale School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

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

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
ASSETS					
Deposits and investments	$20,574,909	$55,891,872	$78,659,967	$92,576,145	$73,820,883
Receivables	25,701,165	6,363,272	6,105,350	5,119,981	14,318,073
Due from other funds	2,059,000	-	1,350,000	1,682,900	-
Stores inventories	77,713	63,078	31,611	55,015	38,170
Total Assets	$48,412,787	$62,318,222	$86,146,928	$99,434,041	$88,177,126
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	9,510,239	15,745,440	20,509,647	26,036,382	22,476,961
Unearned revenue	17,153	126,452	-	39,771	3,697
Total Liabilities	9,527,392	15,871,892	20,509,647	26,076,153	22,480,658
Fund Balances:					
Nonspendable	177,713	163,078	131,611	155,015	88,170
Restricted	6,472,712	9,591,170	15,889,066	18,006,911	21,737,330
Assigned	1,772,887	1,953,395	15,700,383	8,634,145	29,381,260
Unassigned	30,462,083	34,738,687	33,916,221	46,561,817	14,489,708
Total Fund Balances	38,885,395	46,446,330	65,637,281	73,357,888	65,696,468
Total Liabilities and Fund Balances	$48,412,787	$62,318,222	$86,146,928	$99,434,041	$88,177,126

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

District Budget Process and County Review

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

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

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

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 *et seq*.), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the State Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

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

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* property taxes levied to pay debt service on district general obligation bonds.

A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

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

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2019-20, and unaudited actuals for fiscal years 2016-17 through 2018-19.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
General Fund Budgets for Fiscal Years 2016-17 through 2019-20 and Unaudited Actuals for Fiscal Years 2016-17 through 2018-19

	2016-17 Original Adopted Budget[1]	2016-17 Unaudited Actuals[2]	2017-18 Original Adopted Budget	2017-18 Unaudited Actuals[2]	2018-19 Original Adopted Budget	2018-19 Unaudited Actuals	2019-20 Original Adopted Budget
REVENUES							
LCFF Sources	$173,137,021.00	$175,174,109.66	$177,090,691.00	$175,485,376.45	$186,130,019.70	$194,645,464.73	$195,209,604.00
Federal Revenue	12,478,182.81	14,419,320.42	15,719,611.00	17,769,110.50	19,465,833.00	20,139,458.96	21,233,308.95
Other State Revenue	13,433,045.00	14,076,032.02	7,730,006.00	12,450,331.17	12,716,730.00	16,532,968.92	9,342,412.38
Other Local Revenue	15,339,472.00	17,399,501.86	16,501,955.00	22,537,96.97	16,823,677.00	19,794,565.43	17,078,041.98
TOTAL REVENUES	214,387,720.81	221,068,963.96	217,042,263.00	228,242,615.09	235,136,259.70	251,112,458.04	242,863,367.31
EXPENDITURES							
Certificated Salaries	94,339,868.00	92,257,080.75	91,676,084.00	95,815,547.91	97,061,026.00	99,857,760.11	99,804,750.00
Classified Salaries	27,606,781.00	27,355,672.61	28,258,637.00	30,341,982.19	33,280,404.50	34,376,867.25	37,370,434.00
Employee Benefits	56,025,008.52	52,684,898.88	58,571,011.00	56,739,544.49	64,224,607.50	62,908,680.36	68,084,196.50
Books and Supplies	12,369,502.56	14,200,626.42	20,562,742.00	14,490,865.02	17,375,518.35	16,679,283.50	18,686,825.25
Services, Other Operating Expenses	25,643,482.00	25,216,706.06	27,543,119.00	29,456,548.11	33,791,581.00	30,223,478.05	32,576,191.00
Capital Outlay	1,334,895.00	292,123.90	8,047,970.00	9,012,855.27	1,522,794.00	2,877,437.19	1,716,169.00
Other Outgo (excluding Direct Support/Indirect Costs)	485,228.00	602,021.55	315,228.00	576,902.29	390,000.00	166,983.00	1,183,014.00
Transfers of Direct Support/Indirect Costs	(735,754.00)	(1,228,985.03)	(1,036,533.00)	(1,735,298.30)	(1,378,496.00)	(1,880,470.30)	(1,548,861.00)
TOTAL EXPENDITURES	217,069,011.08	211,380,145.14	233,848,258.00	234,698,946.98	246,267,435.35	245,210,019.16	257,872,718.75
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,681,290.27)	9,688,818.82	(16,805,995.00)	(6,456,331.89)	(11,131,175.65)	5,902,438.88	(15,009,351.44)
OTHER FINANCING SOURCES (USES)							
Inter-fund Transfers In	-	-	-	-	-	-	-
Inter-fund Transfers Out[3]	(1.00)	(1,971,071.00)	-	(970,546.93)	-	(402,241.22)	-
Other Sources (Uses)	-	-	-	138,000.00)	-	-	-
Contributions	-	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	(1.00)	(1,971,071.00)	-	(832,546.93)	-	(402,241.22)	-
NET INCREASE (DECREASE) IN FUND BALANCE	(2,681,291.27)	7,717,747.92	(16,805,995.00)	(7,288,878.82)	(11,131,175.65)	5,500,197.66	(15,009,351.44)
BEGINNING BALANCE, as of July 1	62,154,149.00	65,460,287.59	70,547,661.37	73,178,948.37	59,912,982.38	65,514,724.55	51,213,479.00
Audit Adjustments	-	-	-	-	-	-	-
As of July 1 – Audited	62,154,149.00	65,460,287.59	70,547,661.37	73,178,948.37	59,912,982.38	65,514,724.55	51,213,479.00
Other Restatements	-	912.96	-	(375,345.00)	-	37,846.79	-
Adjusted beginning Balance	62,154,149.00	65,461,200.55	70,547,661.37	72,803,603.37	59,912,982.38	65,552.571.34	51,213,479.00
ENDING BALANCE	$59,472,857.73	$73,178,948.37	$53,741,666.37	$65,514,724.55	$48,781,806.73	$71,052,769.00	$36,204,127.56
Unrestricted Balance	$42,327,439.04	$55,172,037.80	$41,831,524.70	$43,777,395.21	$28,701,129.32	$46,047,511.76	$20,184,182.77
Restricted Balance	$17,145,418.69	$18,006,910.57	$11,910,141.67	$21,737,329.34	$20,080,677.41	$25,005,257.24	$16,019,944.79

[1] The beginning and ending fund balances provided in the fiscal year 2016-17 original adopted budget have since been adjusted such that the revised beginning fund balance as of July 1, 2016 is $65,460,287.59, the ending balance is $62,778,996.32, the unrestricted ending balance is $46,875,062.24, and the restricted ending balance is $15,903,934.08.
[2] For fiscal years 2016-17 and 2017-18, the District's unaudited actuals differ from the District's audited financial reports because the audited financial reports include in the General Fund both on behalf of payments and Fund 20, a special reserve fund for postemployment benefits.
[3] Inter-fund transfers out in fiscal years 2016-17 through fiscal year 2018-19 reflect transfers to Fund 21 for qualifying project costs related to the California Clean Energy Jobs Act. Inter-fund transfers out in fiscal year 2017-18 and 2018-19 also reflect transfers related to contributions for early childhood education.
Source: Palmdale School District adopted general fund budgets for fiscal years 2016-17 through 2019-20; and unaudited actuals for fiscal years 2016-17 through 2018-19.

District Debt Structure

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

Long-Term Debt	Balance July 1, 2017, as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds[1][2]	$111,887,576	$ 418,252	$1,370,000	$110,935,828	$5,395,000
Unamortized premium	4,271,837	-	230,663	4,041,174	-
Unamortized discount	(875,417)	-	(29,344)	(846,073)	-
Certificates of Participation	21,480,049	396,583	2,755,000	19,121,632	2,910,000
Unamortized premium	447,146	-	100,154	346,992	-
Unamortized discount	(4,512)	-	(1,354)	(3,158)	-
Municipal lease financing	-	8,289,614	-	8,289,614	-
Compensated absences	837,194	258,696	-	1,095,890	-
Capital leases	6,250,615	-	880,300	5,370,315	597,930
Other postemployment benefits (OPEB)	152,579,513	5,157,882	135,259	157,602,136	-
	$296,874,001	$14,521,027	$5,440,678	$305,954,350	$8,902,930

(1) Includes accreted interest.
(2) Does not reflect the issuance of the Series 2019 Bonds.
Source: Palmdale School District Audited Financial Report for fiscal year 2017-18.

General Obligation Bonds. Prior to the issuance of the Series 2019 Bonds, the District has outstanding seven series of general obligation bonds, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series 2019 Bonds.

See "THE SERIES 2019 BONDS – Outstanding Bonds" and " – Aggregate Debt Service" in the front portion of the Official Statement for more information about such outstanding bonds.

Certificates of Participation. On December 23, 1997, the District caused the 1997 Certificates to be executed and delivered in the aggregate initial principal amount of $15,230,053.05. The 1997 Certificates mature on October 1, 2023 with interest rates ranging from 3.80% to 5.45% per annum. At June 30, 2018, the principal balance outstanding on the 1997 Certificates was $7,616,632.00.

The District previously caused to be executed and delivered on July 27, 2000 its 2000 Certificates in the principal amount of $8,300,000. The proceeds of the 2000 Certificates were used to fund capital building projects, including Buena Vista School and the Tumbleweed modernization project. The 2000 Certificates have been fully paid.

On July 24, 2003, the District caused its Certificates of Participation (Refunding Series 2003) to be executed and delivered in the principal amount of $11,205,000 (the "2003 Certificates"). The proceeds of the 2003 Certificates were used to prepay the unrefunded portion of the District's prior certificates of participation in 1990 and 1993, respectively. The 2003 Certificates have been fully paid.

On July 2, 2008, the District caused its Palmdale School District Certificates of Participation (2008 Refunding Project) (the "2008 Certificates") to be executed and delivered in the aggregate principal amount of $15,960,000. The 2008 Certificates were executed and delivered to prepay the outstanding principal amount of the current interest portion of the 1997 Certificates, as well as the 2000 Certificates. The 2008 Certificates have been fully paid.

On February 27, 2014, the District caused its Certificates of Participation (2014 Refunding and Equipment Project) to be executed and delivered in the aggregate principal amount of $7,210,000 (the

"2014 Certificates"). The proceeds of the 2014 Certificates were used to prepay all of the outstanding 2003 Certificates and to provide funds for the purchase of vehicles and certain other equipment. At June 30, 2018, the principal balance outstanding on the 2014 Certificates was $3,565,000.

On December 15, 2016, the District caused its Certificates of Participation (2016 Refunding Project), Series A in the aggregate principal amount of $6,535,000 (the "2016A Certificates") and Certificates of Participation (2016 Refunding Project, Series B (Federally Taxable) in the aggregate principal amount of $1,905,000 (the "2016B Certificates" and together with the 2016A Certificates, the "2016 Certificates") to be executed and delivered. The 2016 Certificates were executed and delivered to prepay a portion of the 2008 Certificates. At June 30, 2018, the principal balance outstanding on the 2016A Certificates was $6,535,000 and the principal balance outstanding on the 2016B Certificates was $1,405,000.

The District's certificates of participation mature through 2025 as follows:

Year Ending June 30	Principal Including Accreted Interest(1)	Accreted Interest	Current Interest to Maturity	Total
2019	$ 2,889,954	$ 20,046	$ 321,763	$ 3,231,763
2020	3,016,920	93,080	268,650	3,378,650
2021	3,123,772	166,228	210,306	3,500,306
2022	2,891,348	243,652	155,981	3,290,981
2023	2,695,694	329,306	117,550	3,142,550
2024-2025	4,503,944	371,056	122,150	4,997,150
Total	$19,121,632	$1,223,368	$1,196,400	$21,541,400

Source: Palmdale School District Audited Financial Report for fiscal year 2017-18.

Municipal Lease Financing. In May 2018, the District entered into a lease agreement with the Palmdale School Facilities Foundation in the amount of $8,289,614. Proceeds from the lease will be used to fund energy efficiency projects at Summerwind Elementary School and costs of issuance of $138,000. The lease was executed and delivered at 3.675% with the final payment to occur on May 1, 2038. The repayment schedule is as follows:

Year Ending June 30	Principal	Current Interest	Total
2019	-	$ 297,027	$ 297,027
2020	$ 215,320	307,721	523,041
2021	236,312	298,668	534,980
2022	257,588	289,666	547,254
2023	295,150	279,722	574,872
2024-2028	1,863,522	1,212,734	3,076,256
2029-2033	2,492,734	811,679	3,304,413
2034-2038	2,928,988	303,287	3,232,275
Total	$8,289,614	$3,800,504	$12,090,118

Source: Palmdale School District Audited Financial Report for fiscal year 2017-18.

Compensated Absences. Compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2018, amounted to $1,095,890.

Capital Leases. The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchase (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Modulars	Buses	Total
Balance, July 1, 2017	$315,228	$6,967,179	$7,282,407
Payments	(315,228)	(774,131)	(1,089,359)
Balance, June 30, 2018	$ -	$6,193,048	$6,193,048

Source: Palmdale School District Audited Financial Report for fiscal year 2017-18.

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Total
2019	$ 774,131
2020	774,131
2021	774,131
2022	774,131
2023	774,131
2024-2026	2,322,393
Total	$6,193,048
Less: Amount Representing Interest	(822,733)
Present Value of Minimum Lease Payments	$5,370,315

Source: Palmdale School District Audited Financial Report for fiscal year 2017-18.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS and CalPERS (see "– Retirement Benefits" below), the Board of Trustees of the District administers the Postemployment Benefits Plan (the "Plan"), which is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEBs) for eligible retirees and their spouses. At June 30, 2018, membership in such plan consisted of 553 inactive retirees and beneficiaries receiving benefits and 67 active employees, for a total of 620 members of the Plan. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer and the full cost of benefits is covered by the Plan. The Board of Trustees of the District has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements. The benefit payment is based on projected pay-as-you-go financing requirements, as determined annually through agreements with the District, the Palmdale Elementary Teachers Association, the local California Service Employees Association and unrepresented groups. For fiscal year 2017-18, the District contributed $7,312,238 in benefits. For a description of the Plan, see Note 9 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

The Governmental Accounting Standards Board released its Statement Number 45 ("Statement Number 45"), which requires municipalities to account for other post-employment benefits (meaning other than pension benefits) ("OPEB") liabilities much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. Statement Number 45 was phased in over a three-year period based upon the entity's revenues.

Nyhart Actuary & Employee Benefits, San Diego, California, has prepared an actuarial valuation (the "Actuarial Valuation") covering the District's retiree health benefits and reports that, as of June 30, 2019, the District had 399 eligible retirees as well as approximately 1,735 eligible active plan members. The Actuarial Valuation reports that, as of June 30, 2019, the District had a total accrued OPEB liability of about $159.43 million. For fiscal year 2018-19, the annual required contribution is estimated to be $9.03 million. The District currently finances benefits under the Plan on a pay-as-you-go basis. The District has not contributed to an irrevocable trust for the pre-funding of retiree healthcare benefits. The Actuarial Valuation assumes, among other things, 2.75% inflation per year, 3.15% discount rate per year and 3.00% salary increases per year.

In June 2015, the Governmental Accounting Standards Board ("GASB") issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("Statement Number 75"). Other post-employment benefits (meaning other than pension benefits) ("OPEB") generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The District has implemented Statement No. 75 as of June 30, 2018.

Tax and Revenue Anticipation Notes. The District did not issue any tax and revenue anticipation notes in fiscal year 2018-19. The District also has not issued and does not expect to issue any tax and revenue anticipation notes in fiscal year 2019-20. The District may, however, issue tax and revenue anticipation notes in future fiscal years as and when necessary to supplement cash flow.

Community Facilities District (CFD) Special Tax Bonds. The bonds issued by certain community facilities districts ("CFDs") established by the District (the "CFD Bonds") are not obligations of the District. The CFD Bonds, the interest thereon, and any premiums on the redemption of any of the CFD Bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFD, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the CFD Bonds, which are payable from the proceeds of an annual special tax levied on and collected from property within the respective CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Board of Trustees of the District. The CFD Bonds are secured only by a first pledge of all revenues derived from the net special taxes and the moneys deposited in certain funds held under their respective fiscal agent agreements.

For more information about outstanding CFD Bonds, see Note 11 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Employment

As of September 26, 2019, the District employed 1,126 full-time certificated employees and 648 full-time classified employees. In addition, the District employed 969 part-time faculty and staff. For fiscal year 2018-19, the total certificated and classified payrolls paid from the General Fund of the District were approximately $99,857,760 (unaudited) and $34,376,867 (unaudited), respectively, and are budgeted to be approximately $99,804,750 and $37,370,434, respectively, in fiscal year 2019-20.

The District's certificated and classified employees are represented by formal bargaining organizations as shown in the following table below.

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
California Teachers' Association	1,035	June 30, 2021
California School Employees Association, Chapter 296	1,175	October 31, 2019[1]

[1] The District continues to operate under the terms of this bargaining agreement until a new contract is negotiated.
Source: Palmdale School District.

Cybersecurity

The District relies on a complex technological environment to conduct its operations. As a recipient and provider of personal, private and sensitive information, the District is subject to cyber threats, including, but not limited to hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems. In June 2017, the District experienced a cybersecurity ransomware attack. Although no school information was breached during the incident, the District retained outside consultants to assist with the attack. The District has since implemented new firewalls, a new network operation center and remote offsite back-ups. In addition, the District conducts periodic training for its employees and has hired a Security Systems Administrator.

No assurances can be given that the District's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the District's computer and information technology systems could impact its operations and damage the District's digital networks and systems, and the costs of remedying any such damage could be substantial.

Retirement Benefits

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

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

60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

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

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

As of June 30, 2018, an actuarial valuation (the "2018 CalSTRS Actuarial Valuation") for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of $107.2 billion, a decrease of approximately $0.1 billion from the June 30, 2017 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2018, June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 64.0%, 62.6%, 63.7% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2018 CalSTRS Actuarial Valuation: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2018 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See "− *Governor's Pension Reform*" below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

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

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10*
2020	18.40*

* Pursuant to the 2019-20 State Budget. See "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."
Source: Assembly Bill 1469.

The following table sets forth the District's employer contributions to CalSTRS as well as the State's required non-employer contribution for fiscal years 2015-16 through 2017-18, the unaudited and budgeted contributions for fiscal years 2018-19 and 2019-20, respectively.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Contributions to CalSTRS for Fiscal Years 2015-16 through 2019-20

Fiscal Year	District Contribution	STRS On-Behalf Amounts
2015-16	$ 8,592,833	$5,090,349
2016-17	12,048,994	6,755,898
2017-18	13,336,516	8,066,963
2018-19[1]	15,667,370	14,956,387
2019-20[2]	16,073,541	9,133,214

[1] Unaudited actuals for fiscal year 2018-19.
[2] Original adopted budget for fiscal year 2019-20.
Source: Palmdale School District.

The District's total employer contributions to CalSTRS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

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

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

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

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

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

The actuarial funding method used in the 2017 CalPERS Schools Pool Actuarial Valuation is the "Entry Age Normal Cost Method." The 2017 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.75% inflation and payroll growth of 3.00% compounded annually. The 2017 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.375% compounded annually (net of administrative expenses) as of June 30, 2017, 7.25% compounded annually (net of administrative expenses) as of June 30, 2018, and 7.0% compounded annually (net of administrative expenses) as of June 30, 2019. The first reduction in the investment rate of return will impact the District's employer contribution rates beginning in fiscal year 2018-19. The CalPERS Board also adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.75% as of June 30, 2017, to 2.625% as of June 30, 2018, and finally to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. The overall payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875% as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

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

The following table sets forth the District's total employer contributions to CalPERS from all funds of the District for fiscal years 2015-16 through 2017-18, and the unaudited contribution and budgeted contribution for fiscal years 2018-19 and 2019-20, respectively.

PALMDALE SCHOOL DISTRICT
(Los Angeles County, California)
Contributions to CalPERS for Fiscal Years 2015-16 through 2019-20

Fiscal Year	Contribution
2015-16	$3,010,538
2016-17	4,313,928
2017-18	5,300,275
2018-19[1]	5,675,399
2019-20[2]	7,503,045

(1) Unaudited actuals for fiscal year 2018-19.
(2) Original adopted budget for fiscal year 2019-20.
Source: Palmdale School District.

The District's total employer contributions to CalPERS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "−*Governor's Pension Reform*" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

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

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

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

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

Insurance and Joint Ventures

The District is a member of three joint powers authorities ("JPAs"): (i) the Self-Insured Schools of California ("SISC II"), which provides property and liability insurance coverage, (ii) Self-Insured Risk Management Authority ("SIRMA I"), which provides workers' compensation administration, and (iii) Self-Insured Schools of California ("SISC III"), which provides health benefits coverage. The District pays an annual premium to the entities for their coverage. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs provide insurance and services as noted for member school districts.

The JPAs are governed by boards consisting of a representative from each member district. The governing boards control the operations of each JPA, independent of any influence by the District beyond the District's representation on the governing board. Each member district pays premiums and fees commensurate with the level of coverage or services requested, and shares surpluses and deficits proportionate to its participation in each JPA.

The District is also a member of California's Valued Trust, which provides health benefits coverage to teachers. The District pays an annual premium to the trust for its coverage. The relationship between the District and the trust is such that the trust is not a component unit of the District for financial reporting purposes.

See Note 15 to the District's audited financial statements in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018" for more information.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

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

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

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

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

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

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

Article XIIIB of the California Constitution

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

Article XIIIC and Article XIIID of the California Constitution

On October 15, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID ("Article XIIIC" and "Article XIIID," respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further 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 XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

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

Proposition 98 and Proposition 111

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

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

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

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

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

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

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

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

Proposition 30 and Proposition 55

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

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

Applications of Constitutional and Statutory Provisions

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

Proposition 2

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

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

The 2019-20 State Budget includes a constitutionally required deposit into the Public School System Stabilization Account in the amount of $376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps under SB 858 or SB 751 (described below), as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately $2.1 billion). For more information, see "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."

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

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

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

The Series 2019 Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 or SB 751 to adversely affect its ability to pay the principal of and interest on the Series 2019 Bonds as and when due.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

APPENDIX B

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

Palmdale School District

Launching a lifetime of learning

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

PALMDALE SCHOOL DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Palmdale School District
Palmdale, 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 Palmdale 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 Palmdale School District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison schedules on pages 71 and 72, schedule of changes in the District's total OPEB liability and related ratios on page 73, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 74, schedule of the District's proportionate share of the net pension liability on page 75, and the schedule of District contributions on page 76, 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 Palmdale School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* 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 17, 2018, on our consideration of the Palmdale School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Palmdale School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palmdale School District's internal control over financial reporting and compliance.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 17, 2018

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This section of Palmdale 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 the fiscal year ending 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 Palmdale 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 present governmental activities. These statements include all assets of the District, 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.

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 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 Palmdale School District.

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*, the District reports all of its activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as certificates of participation and 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. and California Department of Education.

Governmental Funds - All 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, Community Facility Districts (CFDs), and voluntary payroll withholdings. 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 $(39,542,358) for the fiscal year ended June 30, 2018. Of this amount, $(275,860,808) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District Board's ability to use that net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	2017, as restated
Assets		
Current and other assets	$ 211,916,115	$ 223,032,043
Capital assets	263,617,736	244,099,159
Total Assets	475,533,851	467,131,202
Deferred Outflows of Resources	69,694,374	46,857,953
Liabilities		
Current liabilities	54,143,726	42,178,277
Long-term obligations	305,954,350	296,874,001
Aggregate net pension liability	214,917,142	185,239,437
Total Liabilities	575,015,218	524,291,715
Deferred Inflows of Resources	9,755,365	4,779,962
Net Position		
Net investment in capital assets	191,378,318	192,766,713
Restricted	44,940,132	39,205,434
Unrestricted (deficit)	(275,860,808)	(247,054,669)
Total Net Position (deficit)	$ (39,542,358)	$ (15,082,522)

The $(275,860,808) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased by $28,806,139 – $(275,860,808) compared to $(247,054,669).

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 17. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 8,323,668	$ 3,653,061
Operating grants and contributions	127,784,787	131,946,351
General revenues:		
Federal and State aid not restricted	160,296,213	163,826,274
Property taxes	35,472,734	23,073,354
Other general revenues	6,697,879	37,119,726
Total Revenues	338,575,281	359,618,766
Expenses		
Instruction-related	195,511,398	173,813,833
Pupil services	43,703,133	52,278,277
Administration	19,048,673	19,576,949
Plant services	23,086,667	20,940,871
All other services	81,685,246	72,751,055
Total Expenses	363,035,117	339,360,985
Change in Net Position	$ (24,459,836)	$ 20,257,781

Governmental Activities

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was $363,035,117. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $35,472,734 because the cost was paid by those who benefited from the programs ($8,323,668) or by other governments and organizations who subsidized certain programs with grants and contributions ($127,784,787). We paid for the remaining "public benefit" portion of our governmental activities with $160,296,213 in Federal and State funds and with other revenues, like interest and general entitlements of $6,697,879.

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

Table 3

	2018		2017	
	Total Cost of Services	Net Cost/ (Revenues) of Services	Total Cost of Services	Net Cost of Services
Instruction	$ 155,549,613	$ 113,386,015	$ 159,486,645	$ 113,608,240
Instruction-related activities	39,961,785	28,573,916	14,327,188	12,229,136
Home-to-school transportation	6,009,762	5,632,300	18,982,036	18,589,344
Food services	15,017,307	1,726,142	13,947,061	226,311
All other pupil services	22,676,064	11,006,689	19,349,180	8,701,221
Administration	19,048,673	16,680,682	19,576,949	17,869,796
Plant services	23,086,667	21,692,811	20,940,871	18,899,667
All other services	81,685,246	28,228,107	72,751,055	13,637,858
Total	$ 363,035,117	$ 226,926,662	$ 339,360,985	$ 203,761,573

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $159,529,591, which is a decrease of $22,664,021 from prior year.

Table 4

	Balances and Activity			
	July 1, 2017	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2018
General Fund	$ 73,357,888	$ 236,075,037	$ 243,736,457	$ 65,696,468
Special Education Pass-Through Fund	10,409,152	57,912,447	64,943,220	3,378,379
Building Fund	59,519,823	1,952,453	7,040,229	54,432,047
Child Development Fund	240,641	16,077,825	16,076,623	241,843
Cafeteria Fund	5,585,352	14,089,674	14,672,561	5,002,465
Capital Facilities Fund	353,604	434,399	139,954	648,049
Special Reserve Fund for Capital Outlay Projects	2,293,682	11,739,465	5,017,247	9,015,900
Capital Project Fund for Blended Component Units	23,619,394	96,676	10,703,161	13,012,909
Bond Interest and Redemption Fund	5,965,848	6,981,440	5,048,333	7,898,955
Debt Service Fund	848,228	2,478,711	3,124,363	202,576
Total	$ 182,193,612	$ 347,838,127	$ 370,502,148	$ 159,529,591

The primary reasons for this decrease are:

Our General Fund (01) is our principal operating fund. The fund balance in the General Fund decreased from $73.4 million to $65.7 million due in large part to one-time expenditures including the acquisition of buses and textbook adoption.

Our Building Fund (21) is used for tracking our General Obligation Bond proceeds. The fund balance in the Building Fund decreased from $59.5 million to $54.4 million due to expenditures within the facilities master plan and capital improvement projects.

The Capital Projects Fund for Blended Component Units (49) for ending fund balance decreased from $23.6 million to $13.0 million due to expenditures related to the construction and repurpose of the Dos Caminos campus and the acquisition of 23 acres at the intersection of Palmdale Blvd and 25th Street East.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final revision to the budget was adopted on March 6, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 71.)

Revenue and expenditure revisions were made to the 2017-2018 budgets due to changes in State funding such as the increase in LCFF gap funding from 43.19 percent at the First Interim Report to 44.97 percent at the Second Interim Report, changes in ADA, amended grant awards, changes in unduplicated count, and expenditure increases and savings that were confirmed after the budget was adopted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had a carrying value of $263,617,736 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment, and vehicles. This amount represents a net increase (including additions, deductions, and depreciation) of $19,518,577 or 8.0 percent, from last year.

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	$ 45,099,593	$ 30,494,543
Buildings and improvements - net	202,992,380	203,651,597
Equipment - net	15,525,763	9,953,019
Total	$ 263,617,736	$ 244,099,159

The District purchased 23.8 acres at the intersection of Palmdale Blvd and 25th Street East. The district has completed various Emergency Repair Program constructions **projects, as well as other projects within the facilities master plan.** These projects were funded by the District Building Fund (21) and Special Reserve for Capital Outlay Projects Fund (40). In addition, the District purchased other capitalized equipment using General Fund (01) including buses, technology equipment, and computer software. We present more detailed information about our capital assets in Note 5 to the financial statements.

Long-Term Obligations

At the end of this year, the District had $305,954,350 in long-term obligations outstanding versus $296,874,001 last year, an increase of 3.06 percent from last year. Those long-term obligations consisted of:

Table 6

	Governmental Activities	
	2018	2017, as restated
General obligation bonds - net	$ 114,130,929	$ 115,283,996
Certificates of participation - net	19,465,466	21,922,683
Municipal lease financing	8,289,614	-
Compensated absences	1,095,890	837,194
Capital leases	5,370,315	6,250,615
Net other postemployment benefits (OPEB)	157,602,136	152,579,513
Total	$ 305,954,350	$ 296,874,001

Long-term obligations include general obligation bonds, certificates of participation, municipal lease financing, compensated absences, capital leases, and net other postemployment benefits (OPEB). Long Term Debt issuance in 2017-2018 includes the municipal lease financing. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

In June 2012, Governmental Accounting Standards Board issued Summary of Statement No. 68, *Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

At year end, the District had a net pension liability of $214,917,142 versus $185,239,437 last year, an increase of $29,677,705, or 16.0%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year at First Interim Report, the District Board and management used the following criteria and assumptions:

A. ADA Assumptions

Regular ADA is estimated to increase in fiscal year 2018-2019:

2018-2019: 18,230 Estimated P-2 (+422 from prior year)
2017-2018: 17,808 Actual P-2 (-369 from prior year) (Revised 7/10/2018)
2016-2017: 18,177 Actual P-2 (-17 from prior year) (Revised 2/20/2018)
2015-2016: 18,194 Actual P-2 (-150 from prior year) (Revised 2/20/2018)
2014-2015: 18,344 Actual P2 (-118 from prior year)
2013-2014: 18,462 Actual P-2

B. Revenue Assumptions

1. Local Control Funding Formula (LCFF) calculations include: 3.70 percent Cost of Living Adjustment (COLA). The total LCFF budgeted revenue included in the First Interim Report Budget is $194,833,559.

2. Other State Revenues include:

   A. Lottery budgeted using an estimated Annual ADA of 18,229.96 and augmented by 1.04446 percent for excused absences for a net ADA of 19,040.

      1) Unrestricted Lottery - $151 per ADA.

      2) Restricted Lottery - $53 per ADA.

   B. Mandated Cost Reimbursement Block Grant is budgeted at $31.16 per ADA for a total of $554,100. The budget also includes one-time unrestricted funds of $3,272,738 to pay down a portion of the debt owed to LEAs for mandated cost reimbursement based on an estimated amount of $184 per ADA.

   C. Federal categorical revenues have been adopted at or below the 2017-2018 funding levels to allow for other program changes.

   D. Unrestricted Local revenues including interest earnings, lease payments, tuition reimbursements, and donations totaling approximately $2.5 million (this amount does not include Special Education SELPA transfers from Districts or Charter Schools).

C. Expenditure Assumptions

1. For the 2018-2019 Adopted Budget, step and column increases have been provided for all applicable contract positions, with no other projected increase for salary and benefits in future years.

   As of the First Interim Report, the District has not reached agreements with either certificated or classified bargaining units.

2. All Federal, State, and local categorical grant programs are budgeted with revenues equaling expenditures with the exception of Special Education program. Entitlement programs are budgeted for expenditures equaling the sum of current year revenues and restricted fund balances.

D. Fund Balance

1. The ending fund balance for 2018-2019 was projected to be $48.8 million, per the adopted budget, and is now $40.9 million per First Interim Report, which includes a Reserve for Economic Uncertainties of $8.2 million based on the District's 2018-2019 First Interim Report.

2. Per 2018-2019 First Interim Report, the total General Fund ending fund balance projected for 2018-2019 is estimated at $40.9 million less the Restricted ending fund balance of $6.6 million, leaving a net total of $34.3 million in unrestricted ending fund balance.

E. Multi-Year Projection

A positive ending fund balance is projected for the 2018-2019 and two subsequent fiscal years.

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 additional financial information, contact the Chief Business Officer, Frances Ufondu, at Palmdale School District, 39139 10th Street East, Palmdale, California 93550, or email at fiufondu@palmdalesd.org.

PALMDALE SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
ASSETS		
Deposits and investments	$	192,779,347
Receivables		18,954,512
Stores inventories		182,256
Capital assets		
Land and construction in progress		45,099,593
Other capital assets		324,950,190
Less: Accumulated depreciation		(106,432,047)
Total Capital Assets		263,617,736
TOTAL ASSETS		475,533,851
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refunding		841,376
Deferred outflows of resources related to pensions		68,852,998
Total Deferred Outflows of Resources		69,694,374
LIABILITIES		
Overdrafts		1,923,409
Accounts payable		49,143,378
Accrued interest payable		1,757,202
Unearned revenue		1,319,737
Long-term obligations:		
Current portion of long-term obligations other than pensions		8,902,930
Noncurrent portion of long-term obligations other than pensions		297,051,420
Total Long-Term Obligations		305,954,350
Aggregate net pension liability		214,917,142
TOTAL LIABILITIES		575,015,218
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability		961,427
Deferred inflows of resources related to pensions		8,793,938
Total Deferred Inflows of Resources		9,755,365
NET POSITION		
Net investment in capital assets		191,378,318
Restricted for:		
Debt service		6,344,329
Capital projects		8,804,151
Educational programs		21,737,330
Other activities		8,054,322
Unrestricted (deficit)		(275,860,808)
TOTAL NET POSITION (deficit)	$	(39,542,358)

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

PALMDALE 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	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction	$ 155,549,613	$ 2,298,813	$ 39,864,785	$ (113,386,015)
Instruction-related activities:				
Supervision of instruction	20,102,190	188,338	8,692,900	(11,220,952)
Instructional library, media, and technology	3,206,236	-	469,669	(2,736,567)
School site administration	16,653,359	53,613	1,983,349	(14,616,397)
Pupil services:				
Home-to-school transportation	6,009,762	39	377,423	(5,632,300)
Food services	15,017,307	1,138,781	12,152,384	(1,726,142)
All other pupil services	22,676,064	859,211	10,810,164	(11,006,689)
Administration:				
Data processing	5,168,847	-	21,578	(5,147,269)
All other administration	13,879,826	67,773	2,278,640	(11,533,413)
Plant services	23,086,667	34,874	1,358,982	(21,692,811)
Ancillary services	127,166	-	25,719	(101,447)
Community services	1,211,604	-	1,204,590	(7,014)
Interest on long-term obligations	5,492,993	-	-	(5,492,993)
Other outgo	66,175,442	3,682,226	48,544,604	(13,948,612)
Depreciation (unallocated) [1]	8,678,041	-	-	(8,678,041)
Total Governmental Activities	$ 363,035,117	$ 8,323,668	$ 127,784,787	(226,926,662)

General revenues and subventions:	
Property taxes, levied for general purposes	21,333,784
Property taxes, levied for debt service	13,301,289
Taxes levied for other specific purposes	837,661
Federal and State aid not restricted to specific purposes	160,296,213
Interest and investment earnings	2,370,004
Miscellaneous	4,327,875
Subtotal, General Revenues	202,466,826
Change in Net Position	(24,459,836)
Net Position - Beginning, as restated	(15,082,522)
Net Position - Ending	$ (39,542,358)

[1] This amount excludes any depreciation that is included in the direct expenses of the various programs.

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

PALMDALE SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Special Education Pass-Through Fund	Building Fund
ASSETS			
Deposits and investments	$ 73,820,883	$ 25,654,995	$ 56,378,460
Receivables	14,318,073	74,043	312,375
Stores inventories	38,170	-	-
Total Assets	$ 88,177,126	$ 25,729,038	$ 56,690,835
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	$ -	$ -	$ -
Accounts payable	22,476,961	22,350,659	2,258,788
Unearned revenue	3,697	-	-
Total Liabilities	22,480,658	22,350,659	2,258,788
Fund Balances:			
Nonspendable	88,170	-	-
Restricted	21,737,330	3,378,379	54,432,047
Assigned	29,381,260	-	-
Unassigned	14,489,708	-	-
Total Fund Balances	65,696,468	3,378,379	54,432,047
Total Liabilities and Fund Balances	$ 88,177,126	$ 25,729,038	$ 56,690,835

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

Non-Major Governmental Funds		Total Governmental Funds	
$	36,925,009	$	192,779,347
	4,250,021		18,954,512
	144,086		182,256
$	41,319,116	$	211,916,115
$	1,923,409	$	1,923,409
	2,056,970		49,143,378
	1,316,040		1,319,737
	5,296,419		52,386,524
	144,086		232,256
	32,542,527		112,090,283
	3,336,084		32,717,344
	-		14,489,708
	36,022,697		159,529,591
$	41,319,116	$	211,916,115

PALMDALE SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 159,529,591**
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:	$ 370,049,783	
Accumulated depreciation is:	(106,432,047)	263,617,736
Net Capital Assets		
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,757,202)
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		841,376
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and are not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consaret of:		
Pension contributions subsequent to measurement date	18,636,791	
Net change in proportionate share of net pension liability	8,018,589	
Difference between projected and actual earnings on pension plan investments	1,994,430	
Differences between expected and actual experience in the measurement of the total pension liability	2,647,076	
Changes of assumptions	37,556,112	
Total Deferred Outflows of Resources Related to Pensions		68,852,998
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and are not reported in the Daretrict's funds. Deferred inflows of resources related to pensions at year-end consaret of:		
Net change in proportionate share of net pension liability	(1,183,852)	
Difference between projected and actual earnings on pension plan investments	(4,188,359)	
Differences between expected and actual experience in the measurement of the total pension liability	(2,742,924)	
Changes of assumptions	(678,803)	
Total Deferred Inflows of Resources Related to Pensions		(8,793,938)

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

PALMDALE SCHOOL DISTRICT

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

Deferred inflows of resources related to OPEB represent an acquisition of net position that applies to a future period and are not reported in the Daretrict's funds. Deferred inflows of resources related to pensions at year-end consist of a change of assumptions:		$ (961,427)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(214,917,142)
Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	$ 107,224,826	
Unamortized premium on bonds	4,041,174	
Unamortized discount on bonds	(846,073)	
Certificates of participation	14,050,053	
Unamortized premium on certificates of participation	346,992	
Unamortized discount on certificates of participation	(3,158)	
Municipal leases financing	8,289,614	
Compensated absences (vacations)	1,095,890	
Capital leases	5,370,315	
Net other postemployment benefits (OPEB) liability	157,602,136	
In addition, the District has issued "capital appreciation" general obligation bonds and certificates of particpation. The accretion of interest on the general obligation bonds and certificates of participation to date is:	8,782,581	
Total Long-Term Obligations		(305,954,350)
Total Net Position - Governmental Activities		**$ (39,542,358)**

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

PALMDALE SCHOOL DISTRICT

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

	General Fund	Special Education Pass-Through Fund	Building Fund
REVENUES			
Local Control Funding Formula	$ 175,110,032	$ -	$ -
Federal sources	17,769,111	12,804,192	-
Other State sources	20,517,295	44,907,166	-
Other local sources	22,540,599	201,089	1,082,740
Total Revenues	235,937,037	57,912,447	1,082,740
EXPENDITURES			
Current			
Instruction	136,684,951	-	-
Instruction-related activities:			
Supervision of instruction	14,801,782	-	-
Instructional library, media, and technology	3,009,256	-	-
School site administration	14,162,502	-	-
Pupil services:			
Home-to-school transportation	12,381,404	-	-
Food services	34,449	-	-
All other pupil services	20,423,125	-	-
Administration:			
Data processing	5,179,918	-	-
All other administration	11,423,998	-	-
Plant services	19,767,087	-	1,145,449
Ancillary services	127,166	-	-
Community services	1,211,604	-	-
Other outgo	261,675	64,943,220	-
Facility acquisition and construction	2,081,899	-	5,894,780
Debt service			
Principal	880,300	-	-
Interest and other	334,794	-	-
Total Expenditures	242,765,910	64,943,220	7,040,229
Deficiency of Revenues Over Expenditures	(6,828,873)	(7,030,773)	(5,957,489)
Other Financing Sources (Uses)			
Transfers in	-	-	869,713
Other sources - proceeds from issuance of municipal lease financing	138,000	-	-
Transfers out	(970,547)	-	-
Net Financing Sources (Uses)	(832,547)	-	869,713
NET CHANGE IN FUND BALANCES	(7,661,420)	(7,030,773)	(5,087,776)
Fund Balances - Beginning	73,357,888	10,409,152	59,519,823
Fund Balances - Ending	$ 65,696,468	$ 3,378,379	$ 54,432,047

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

Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 175,110,032
24,826,846	55,400,149
7,572,055	72,996,516
11,246,841	35,071,269
43,645,742	338,577,966
7,590,783	144,275,734
3,989,980	18,791,762
-	3,009,256
1,163,935	15,326,437
-	12,381,404
14,695,528	14,729,977
570,575	20,993,700
-	5,179,918
1,794,242	13,218,240
1,417,670	22,330,206
-	127,166
-	1,211,604
-	65,204,895
15,384,911	23,361,590
4,125,000	5,005,300
4,049,618	4,384,412
54,782,242	369,531,601
(11,136,500)	(30,953,635)
100,834	970,547
8,151,614	8,289,614
-	(970,547)
8,252,448	8,289,614
(2,884,052)	(22,664,021)
38,906,749	182,193,612
$ 36,022,697	$ 159,529,591

PALMDALE 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		**$ (22,664,021)**
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 capitalized 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	$ 30,467,816	
Depreciation expense	(8,678,041)	21,789,775
Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds.		(2,271,198)
Some of the capital assets acquired this year were financed with municipal leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the municipal leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Assets.		(8,289,614)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts paid by $258,696.		(258,696)
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.		(10,678,751)
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 inflows, and net OPEB liability during the year.		(5,984,050)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds	1,370,000	
Certificates of participation	2,755,000	
Capital leases	880,300	5,005,300

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

PALMDALE SCHOOL DISTRICT

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

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:		
Amortization of debt premium	$ 330,817	
Amortization of debt discount	(30,698)	
Amortization of deferred charges on refunding	(176,509)	$ 123,610
Interest on long-term obligations is recorded as an expenditure in the governmental funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is a result of two factors. First, accrued interest on general obligation bonds and certificates of participation increased by $814,835. Second, $417,356 of additional accumulated interest accreted on the District's general obligation bonds and certificates of participation.		(1,232,191)
Change in Net Position of Governmental Activities		**$ (24,459,836)**

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

PALMDALE SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

		Agency Funds
ASSETS		
Deposits and investments	$	13,396,179
Receivables		53,399
Total Assets	$	13,449,578
LIABILITIES		
Due to student groups	$	116,495
Due to bondholders		12,500,386
Due to employees		832,697
Total Liabilities	$	13,449,578

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Palmdale School District (the District) was organized in 1888 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. The District operates 18 elementary schools, one grade kindergarten to eight school, five middle schools, a community day school, an independent study program, and two learning centers.

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 Palmdale School District, this includes general operations, food service, student-related activities of the District and administrative functions for the Antelope Valley Special Education Local Plan Area (SELPA) and Head Start programs in the Antelope Valley.

Component Units

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

The Palmdale School District Facilities Foundation's (the Foundation) financial activity is presented in the financial statements as the Debt Service Fund. Certificates of Participation and the Municipal Lease Financing issued by the Foundation are included as long-term obligations in the government-wide financial statements. The Community Facilities District of the Palmdale School District (the CFDs) financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and in the Agency Fund. Long-term obligations of the CFDs do not represent obligations of the District and thus are not included in the government-wide financial statements. Individually-prepared financial statements are not available for the Foundation or the CFDs.

Other Related Entities

Charter School The District has approved Charters for Antelope Valley Learning Academy, Guidance Charter School, and The Palmdale Aerospace Academy pursuant to *Education Code* Section 47605. The Charter Schools are operated independently and not considered a component unit of the District. The District receives revenue on behalf of the Charter Schools which it passes on to the Charters.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in fund balance, revenues and other financing sources, and expenditures and other financing uses of $181,744, $8,069,767, and $8,066,963.

Special Education Pass-Through Fund The Special Education Pass-Through Fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

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

Non-Major Governmental Funds

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

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

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

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).

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

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

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

Debt Service Fund The Debt Service Fund is used for the accumulation of resources for and the retirement 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, receipt of special taxes for payment of non-obligatory debt related to the CFDs, 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. This approach differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial statement of activities presents a comparison between direct expenses (both direct and indirect) and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment 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 asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their net asset 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 reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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 of the District.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Stores Inventories

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

Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide 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 and improvements, 20 to 50 years; vehicles, 8 to 15 years; equipment, 2 to 15 years.

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 funds.

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position 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.

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.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $44,940,132, of net position restricted by enabling legislation.

Interfund Activity

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

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of 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	$	192,779,347
Fiduciary funds		13,396,179
Total Deposits and Investments	$	206,175,526

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

Cash on hand and in banks	$	631,045
Cash in revolving		50,000
Investments		205,494,481
Total Deposits and Investments	$	206,175,526

The Child Development Fund ended the year with a negative balance in the Cash in County investment account of $(1,923,409), which is presented as an overdraft.

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 primarily investing in the Los Angeles County Treasury Investment Pool and money market funds.

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

Investment Type	Reported Amount	Average Days to Maturity
Los Angeles County Treasury Investment Pool	$ 190,224,324	609
US Bank Money Market Mutual Funds	14,177,553	N/A
First American Treasury Obligations Money Market Funds	1,092,604	18
Total	$ 205,494,481	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Los Angeles County Treasury Investment Pool and US Bank Money Market Mutual Funds are not required to be rated nor have been rated as of June 30, 2018. The District's investments in First American Treasury Obligations Money Market Funds were rated by Moody's Investor Service as Aaa.

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 did not have bank balances exposed to custodial credit risk because amounts were fully insured.

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

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

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs	Uncategorized
Los Angeles County Treasury Investment Pool	$ 190,224,324	$ -	$ 190,224,324
US Bank Money Market Mutual Funds	14,177,553	14,177,553	-
First American Treasury Obligations Money Market Funds	1,092,604	1,092,604	-
Total	$ 205,494,481	$ 15,270,157	$ 190,224,324

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

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	Special Education Pass-Through Fund	Building Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	$ 6,569,152	$ -	$ -	$ 3,440,874
State Government				
Categorical aid	100,883	-	-	745,515
Lottery	661,360	-	-	-
Special Education	3,614,136	-	-	-
Local Government				
Interest	361,760	74,043	312,375	59,859
Other Local Sources	3,010,782	-	-	3,773
Total	$ 14,318,073	$ 74,043	$ 312,375	$ 4,250,021

	Total Governmental Activities	Fiduciary Funds
Federal Government		
Categorical aid	$ 10,010,026	$ -
State Government		
Categorical aid	846,398	-
Lottery	661,360	-
Special Education	3,614,136	-
Local Government	-	
Interest	808,037	53,399
Other Local Sources	3,014,555	-
Total	$ 18,954,512	$ 53,399

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017 as restated	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 24,094,346	$ 5,998,930	$ -	$ 30,093,276
Construction in progress	6,400,197	13,832,168	5,226,048	15,006,317
Total Capital Assets Not Being Depreciated	30,494,543	19,831,098	5,226,048	45,099,593
Capital Assets Being Depreciated				
Buildings and improvements	293,932,779	5,226,048	-	299,158,827
Furniture and equipment	34,483,816	10,636,718	19,329,171	25,791,363
Total Capital Assets Being Depreciated	328,416,595	15,862,766	19,329,171	324,950,190
Total Capital Assets	358,911,138	35,693,864	24,555,219	370,049,783
Less Accumulated Depreciation				
Buildings and improvements	90,281,182	5,885,265	-	96,166,447
Furniture and equipment	24,530,797	2,792,776	17,057,973	10,265,600
Total Accumulated Depreciation	114,811,979	8,678,041	17,057,973	106,432,047
Governmental Activities Capital Assets, Net	$ 244,099,159	$ 27,015,823	$ 7,497,246	$ 263,617,736

Depreciation expense was charged to governmental functions as unallocated.

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

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

The General Fund transferred $869,713 to the Building Fund for qualifying project costs related to the California Clean Energy Jobs Act.

The General Fund transferred $100,834 to the Child Development Non-Major Governmental Fund to contribute to Child Development programs.

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Special Education Pass-Through Fund	Building Fund
Salaries and benefits	$ 17,456,707	$ -	$ -
Materials and supplies	16,609	-	-
Services and other operating costs	1,725,148	-	402,412
Construction	4,130	-	1,852,126
LCFF apportionment	2,288,020	-	-
Due to other LEAs	299,976	22,350,659	-
Other vendor payables	686,371	-	4,250
Total	$ 22,476,961	$ 22,350,659	$ 2,258,788

	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	$ 703,954	$ 18,160,661
Materials and supplies	102,698	119,307
Services and other operating costs	166,979	2,294,539
Construction	1,079,762	2,936,018
LCFF apportionment	-	2,288,020
Due to other LEAs	-	22,650,635
Other vendor payables	3,577	694,198
Total	$ 2,056,970	$ 49,143,378

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 3,697	$ -	$ 3,697
State categorical aid	-	1,316,040	1,316,040
Total	$ 3,697	$ 1,316,040	$ 1,319,737

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017 as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	$ 111,887,576	$ 418,252	$ 1,370,000	$ 110,935,828	$ 5,395,000
Unamortized premium	4,271,837	-	230,663	4,041,174	-
Unamortized discount	(875,417)	-	(29,344)	(846,073)	-
Certificates of participation	21,480,049	396,583	2,755,000	19,121,632	2,910,000
Unamortized premium	447,146	-	100,154	346,992	-
Unamortized discount	(4,512)	-	(1,354)	(3,158)	-
Municipal lease financing	-	8,289,614	-	8,289,614	-
Compensated absences	837,194	258,696	-	1,095,890	-
Capital leases	6,250,615	-	880,300	5,370,315	597,930
Net other postemployment benefits (OPEB)	152,579,513	5,157,882	135,259	157,602,136	-
	$ 296,874,001	$ 14,521,027	$ 5,440,678	$ 305,954,350	$ 8,902,930

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund. Payments on the certificates of participation are made by the Debt Service Fund. The compensated absences and net other postemployment benefits (OPEB) liabilities are paid by the fund for which the employee worked. Capital lease payments are made out of the General Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018
2/28/2002	2/1/2027	2.00 - 5.60%	$ 21,128,371	$ 3,684,519	$ -	$ 336,463	$ -	$ 4,020,982
12/11/2003	4/1/2028	2.00 - 5.52%	3,871,456	868,057	-	81,789	-	949,846
10/4/2011	8/1/2023	2.00 - 5.00%	14,775,000	9,940,000	-	-	1,150,000	8,790,000
5/7/2013	8/1/2047	2.00 - 3.50%	42,240,000	41,035,000	-	-	50,000	40,985,000
5/7/2013	8/1/2027	2.00 - 3.40%	2,985,000	2,510,000	-	-	170,000	2,340,000
4/26/2017	8/1/2046	2.00 - 5.25%	25,350,000	25,350,000	-	-	-	25,350,000
4/26/2017	8/1/2046	3.00 - 5.25%	28,500,000	28,500,000	-	-	-	28,500,000
				$ 111,887,576	$ -	$ 418,252	$ 1,370,000	$ 110,935,828

General Obligation Bonds, Election of 2001, Series 2002

In February 2002, the District issued $21,128,371 of the General Obligation Bonds, Election of 2001, Series 2002. The Series 2002 Bonds were issued as both current interest and capital appreciation bonds, with the value of the capital appreciation accreting to $7,920,000 and an aggregate principal debt service balance of $28,055,000. The bonds have a final maturity to occur on February 1, 2027, with interest rates of 2.00 to 5.60 percent. Proceeds from the sale of the bonds were used to construct new school facilities and repair and expand existing school facilities. At June 30, 2018, the Series 2002 Bonds principal balance outstanding was $4,020,982.

General Obligation Bonds, Election of 2001, Series 2003

In December 2003, the District issued $3,871,456 of the General Obligation Bonds, Election of 2001, Series 2003. The Series 2003 Bonds were issued as both current interest and capital appreciation bonds, with the value of the capital appreciation bonds accreting to $2,445,000 and an aggregate principal debt service balance of $6,050,000. The bonds have a final maturity to occur on April 1, 2028, with interest rates of 2.00 to 5.52 percent. Proceeds from the sale were used to construct new school facilities and repair and expand existing school facilities. During 2013, a portion of the bonds were refunded with the issuance of the Refunding Bonds, Election of 2012, Series 2013B. At June 30, 2018, the Series 2003 Bonds principal balance outstanding was $949,846.

General Obligation Refunding Bonds, Series 2011

In October 2011, the District issued $14,775,000 of the General Obligation Refunding Bonds, Series 2011. The Bonds were issued as current interest bonds. The bonds have a final maturity to occur on August 1, 2023, with interest rates of 2.00 to 5.00 percent. Proceeds from the sale of the bonds were used to refund a portion of the currently outstanding General Obligation Bonds, Election of 2001, Series 2002. At June 30, 2018, the Series 2011 Refunding Bonds principal balance outstanding was $8,790,000, and unamortized premium and deferred charges on refunding were $542,708 and $290,128, respectively.

General Obligation Bonds, Election of 2012, Series 2013A

In May 2013, the District issued $42,240,000 of the General Obligation Bonds, Election of 2012, Series 2013A. The Series 2013A Bonds were issued as current interest bonds. The bonds have a final maturity to occur on August 1, 2047, with interest rates of 2.00 to 3.50 percent. Proceeds from the sale of the bonds were used to construct school facilities throughout the District. At June 30, 2018, the Series 2013A Bonds principal balance outstanding was $40,985,000, and unamortized discount was $846,073.

General Obligation Refunding Bonds, Election of 2012, Series 2013B

In May 2013, the District issued $2,985,000 of the General Obligation Refunding Bonds, Election of 2012, Series 2013B. The Series 2013B Bonds were issued as current interest bonds. The bonds have a final maturity to occur on August 1, 2027, with interest rates of 2.00 to 3.40 percent. Proceeds from the sale of the bonds were used to refund a portion of the currently outstanding General Obligation Bonds, Election 2001, Series 2003. At June 30, 2018, the Series 2013B Bonds principal balance outstanding was $2,340,000, and unamortized premium and deferred charges on refunding were $57,326, and $42,397, respectively.

General Obligation Bonds, Election of 2012, Series 2017B

In April 2017, the District issued $25,350,000 of the General Obligation Bonds, Election of 2012, Series 2017B. The Series 2017B were issued as current interest bonds. The Bonds have a final maturity to occur on August 1, 2046, with interest rates of 2.00 to 5.25 percent. Proceeds from the sale of the bonds will be used to finance specific construction, repair, and improvement projects approved by the voters of the District. At June 30, 2018, the Series 2017B Bonds principal balance outstanding was $23,350,000, and unamortized premium was $1,637,053.

General Obligation Bonds, Election of 2016, Series 2017A

In April 2017, the District issued $28,500,000 of the General Obligation Bonds, Election of 2016, Series 2017A. The Series 2017A were issued as current interest bonds. The Bonds have a final maturity to occur on August 1, 2046, with interest rates of 3.00 to 5.25 percent. Proceeds from the sale of the bonds will be used to finance specific construction, repair, and improvement projects approved by the voters of the District. At June 30, 2018, the Series 2017A Bonds principal balance outstanding was $28,500,000, and unamortized premium was $1,804,087.

Debt Service Requirements to Maturity

The General Obligation Bonds mature through 2048 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Current Interest to Maturity	Total
2019	$ 5,395,000	$ -	$ 4,226,974	$ 9,621,974
2020	3,280,000	-	4,071,874	7,351,874
2021	1,760,000	-	3,969,099	5,729,099
2022	1,965,000	-	3,883,724	5,848,724
2023	2,180,000	-	3,825,401	6,005,401
2024-2028	11,390,828	5,394,173	18,062,753	34,847,754
2029-2033	9,845,000	-	16,653,194	26,498,194
2034-2038	16,315,000	-	14,297,094	30,612,094
2039-2043	25,495,000	-	9,770,563	35,265,563
2044-2048	33,310,000	-	3,154,056	36,464,056
Total	$ 110,935,828	$ 5,394,173	$ 81,914,732	$ 198,244,733

Certificates of Participation (COP)

The outstanding COP debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018
12/1/1997	10/1/2023	3.80 - 5.45%	$ 15,230,053	$ 7,220,049	$ -	$ 396,583	$ -	$ 7,616,632
6/19/2008	10/1/2024	3.00 - 4.75%	15,960,000	1,270,000	-	-	1,270,000	-
2/27/2014	9/1/2021	2.00 - 2.75%	7,210,000	4,550,000	-	-	985,000	3,565,000
11/17/2016	10/1/2024	2.00 - 4.00%	6,535,000	6,535,000	-	-	-	6,535,000
11/17/2016	10/1/2020	1.50 - 2.25%	1,905,000	1,905,000	-	-	500,000	1,405,000
				$ 21,480,049	$ -	$ 396,583	$ 2,755,000	$ 19,121,632

Certificates of Participation, 1997 Refunding and School Building Project

In December 1997, the Foundation issued $15,230,053 of the Certificates of Participation, 1997 Refunding and School Building Project. The certificates were issued as both current interest and capital appreciation certificates, with the value of the capital appreciation certificates accreting to $4,420,000, and an aggregate principal debt service balance of $21,525,000. The certificates have a final maturity to occur on October 1, 2023, with interest rates of 3.80 to 5.45 percent. Proceeds from the sale of the certificates were used to pay off a portion of the 1993B Lease Revenue Bonds, with remaining proceeds used to acquire and construct school facilities. In June 2008, the current interest certificates were refunded with the issuance of the Certificates of Participation, 2008 Refunding Project. At June 30, 2018, the principal balance outstanding on the Certificates of Participation, 1997 Refunding and School Building Project was $7,616,632.

Certificates of Participation, 2008 Refunding Project

In June 2008, the Foundation issued $15,960,000 of the Certificates of Participation, 2008 Refunding Project. The certificates have a final maturity to occur on October 1, 2024, with interest rates of 3.00 to 4.75 percent. Proceeds from the sale of the certificates were used pay off a portion of the Certificates of Participation, 1997 Refunding and School Building Project. In November 2016, a portion of the Certificates of Participation, 2008 Refunding Projects were refunded with the issuance of the Certificates of Participation, 2016 Refunding Project, Series A and Series B. At June 30, 2018, the Certificates of Participation, 2008 Refunding Project were fully repaid.

Certificate of Participation, 2014 Refunding and Equipment Project

In February 2014, the Foundation issued $7,210,000 of the Certificate of Participation, 2014 Refunding and Equipment Project. The certificates have a final maturity to occur on September 1, 2021, with interest rates of 2.00 to 2.75 percent. Proceeds from the sale of the certificates were used to pay off the Certificate of Participation, Refunding Series 2003 and provide funding for equipment purchases. At June 30, 2018, the principal balance outstanding on the Certificates of Participation, 2014 Refunding and Equipment Project was $3,565,000, and unamortized premium and deferred charges on refunding were $208,954, and $30,245, respectively.

Certificates of Participation, 2016 Refunding Project, Series A

In November 2016, the Foundation issued $6,535,000 of the Certificates of Participation, 2016 Refunding Project, Series A. The certificates have a final maturity to occur on October 1, 2024, with interest rates s of 2.00 to 4.00 percent. Proceeds from the sale of the certificates were used to prepay a portion of the Certificates of Participation, 2008 Refunding Project and to pay the cost off issuance. At June 30, 2018, the principal balance outstanding on the Certificates of Participation, 2016 Refunding Project, Series A was $6,535,000, and unamortized premium and deferred charges on refunding were $138,038, and $396,119, respectively.

Certificates of Participation, 2016 Refunding Project, Series B

In November 2016, the Foundation issued $1,905,000 of the Certificates of Participation, 2016 Refunding Project, Series B. The certificates have a final maturity to occur on October 1, 2020, with interest rates of 1.50 to 2.25 percent. Proceeds from the sale of the certificates were used to prepay a portion of the Certificates of Participation, 2008 Refunding Project and to pay the cost off issuance. At June 30, 2018, the principal balance outstanding on the Certificates of Participation, 2016 Refunding Project, Series B was $1,405,000, and unamortized discount and deferred charges on refunding were $3,158, and $82,487, respectively.

The Certificates of Participation mature through 2025 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Current Interest to Maturity	Total
2019	$ 2,889,954	$ 20,046	$ 321,763	$ 3,231,763
2020	3,016,920	93,080	268,650	3,378,650
2021	3,123,772	166,228	210,306	3,500,306
2022	2,891,348	243,652	155,981	3,290,981
2023	2,695,694	329,306	117,550	3,142,550
2024-2025	4,503,944	371,056	122,150	4,997,150
Total	$ 19,121,632	$ 1,223,368	$ 1,196,400	$ 21,541,400

Municipal Lease Financing

In May 2018, the District entered into a lease agreement with the Palmdale School Facilities Foundation in the amount of $8,289,614. Proceeds from the lease will be used to fund energy efficiency projects at Summerwind Elementary School and costs of issuance of $138,000. The lease was issued at 3.675 percent, with the final payment to occur on May 1, 2038. The repayment schedule is as follows:

Fiscal Year	Principal	Current Interest	Total
2019	$ -	$ 297,027	$ 297,027
2020	215,320	307,721	523,041
2021	236,312	298,668	534,980
2022	257,588	289,666	547,254
2023	295,150	279,722	574,872
2024-2028	1,863,522	1,212,734	3,076,256
2029-2033	2,492,734	811,679	3,304,413
2034-2038	2,928,988	303,287	3,232,275
Total	$ 8,289,614	$ 3,800,504	$ 12,090,118

Compensated Absences

Compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2018, amounted to $1,095,890.

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Modulars	Buses	Total
Balance, Beginning of Year	$ 315,228	$ 6,967,179	$ 7,282,407
Payments	(315,228)	(774,131)	(1,089,359)
Balance, End of Year	$ -	$ 6,193,048	$ 6,193,048

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 774,131
2020	774,131
2021	774,131
2022	774,131
2023	774,131
2024-2026	2,322,393
Total	6,193,048
Less: Amount Representing Interest	(822,733)
Present Value of Minimum Lease Payments	$ 5,370,315

Net Other Postemployment Benefits (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 156,306,923	$ 961,427	$ 13,431,547
Medicare Premium Payment (MPP) Program	1,295,213	-	(135,259)
Total	$ 157,602,136	$ 961,427	$ 13,296,288

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 in the District management.

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	553
Active employees	67
	620

Benefits Provided

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

The benefit payment requirements of Plan members and the District are established and may be amended by the District, the Palmdale Elementary Teachers Association (Association), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements, as determined annually through the agreements with the District, the Association, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed $7,312,238 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of $156,306,923, 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	3.00	percent, average, including inflation
Discount rate	3.50	percent
Healthcare cost trend rates	5.00	percent for 2017-18

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

Mortality rates were based on the RPH 2014 mortality table with generational improvements using scale MP 2017. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

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

Change in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 151,149,041
Service cost	8,325,990
Interest	5,297,843
Changes of assumptions or other inputs	(1,153,713)
Benefit payments	(7,312,238)
Net change in total OPEB liability	5,157,882
Balance at June 30, 2018	$ 156,306,923

There were no changes in benefit terms.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.40 percent in 2017 to 3.50 percent in 2018.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.50%)	$ 168,249,265
Current discount rate (3.50%)	156,306,923
1% increase (4.50%)	145,260,968

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 (4.00%)	$ 143,092,495
Current healthcare cost trend rate (5.00%)	156,306,923
1% increase (6.00%)	171,502,897

OPEB Expense and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $13,431,547. At June 30, 2018, the District reported deferred inflows of resources due to a change of assumption of $961,427.

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 192,286
2020	192,286
2021	192,286
2022	192,286
2022	192,283
	$ 961,427

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.

Net OPEB Liability and OPEB Expense

At June 30, 2018, the District reported a liability of $1,295,213, 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 0.3079 percent, and 0.3056 percent, resulting in a net increase in the proportionate share of 0.0023 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of ($135,259).

Actuarial Methods and Assumptions

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

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

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

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 1,433,891
Current discount rate (3.58%)	1,295,213
1% increase (4.58%)	1,160,319

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,170,423
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,295,213
1% increase (4.7% Part A and 5.1% Part B)	1,418,756

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 50,000	$ -	$ -	$ -	$ 50,000
Stores inventories	38,170	-	-	144,086	182,256
Total Nonspendable	88,170	-	-	144,086	232,256
Restricted					
Legally restricted programs	21,737,330	3,378,379	-	4,675,943	29,791,652
Capital projects	-	-	54,432,047	19,765,053	74,197,100
Debt service	-	-	-	8,101,531	8,101,531
Total Restricted	21,737,330	3,378,379	54,432,047	32,542,527	112,090,283
Assigned					
Assigned board reserve	24,287,345	-	-	-	24,287,345
Technology upgrades	4,912,172	-	-	-	4,912,172
OPEB reserve	181,743	-	-	-	181,743
Child development	-	-	-	161,877	161,877
Cafeteria program	-			262,402	262,402
Capital projects	-	-	-	2,911,805	2,911,805
Total Assigned	29,381,260	-	-	3,336,084	32,717,344
Unassigned					
Reserve for economic uncertainties	7,120,000	-	-	-	7,120,000
Remaining unassigned	7,369,708	-	-	-	7,369,708
Total Unassigned	14,489,708	-	-	-	14,489,708
Total	$ 65,696,468	$ 3,378,379	$ 54,432,047	$ 36,022,697	$ 159,529,591

NOTE 11 - NON-OBLIGATORY DEBT

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

Special assessment debt of $68,759,747, as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 12 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. The employee workers' compensation program is administered by the General Fund through the purchase of commercial insurance. The District participates in various public entity risk pools (JPAs) for the workers' compensation administration, property/liability insurance, and health and welfare programs. Refer to Note 15 for additional information regarding the JPAs.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 157,263,279	$ 48,897,448	$ 8,115,135	$ 17,614,031
CalPERS	57,653,863	19,955,550	678,803	11,701,510
Total	$ 214,917,142	$ 68,852,998	$ 8,793,938	$ 29,315,541

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

Benefits Provided

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

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

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

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.430%	14.430%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $13,336,516.

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	$ 157,263,279
State's proportionate share of the net pension liability associated with the District	93,035,627
Total	$ 250,298,906

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1701 percent and 0.1719 percent, resulting in a net decrease in the proportionate share of 0.0018 percent.

For the year ended June 30, 2018, the District recognized pension expense of $17,614,031. In addition, the District recognized pension expense and revenue of $1,297,966, 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	$ 13,336,516	$ -
Net change in proportionate share of net pension liability	5,844,499	1,183,852
Difference between projected and actual earnings on pension plan investments	-	4,188,359
Differences between expected and actual experience in the measurement of the total pension liability	581,575	2,742,924
Changes of assumptions	29,134,858	-
Total	$ 48,897,448	$ 8,115,135

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	$ (3,481,939)
2020	2,634,800
2021	379,923
2022	(3,721,143)
Total	$ (4,188,359)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 5,387,334
2020	5,387,334
2021	5,387,334
2022	5,387,336
2023	5,329,387
Thereafter	4,755,431
Total	$ 31,634,156

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 (7.60 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%)	$ 230,912,420
Current discount rate (7.10%)	157,263,279
1% increase (8.10%)	97,492,009

<u>California Public Employees Retirement System (CalPERS)</u>

Plan Description

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

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

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.500%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $5,300,275.

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 $57,653,863. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.2415 percent and 0.2341 percent, resulting in a net increase in the proportionate share of 0.0074 percent.

For the year ended June 30, 2018, the District recognized pension expense of $11,701,510. 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	$ 5,300,275	$ -
Net change in proportionate share of net pension liability	2,174,090	-
Difference between projected and actual earnings on pension plan investments	1,994,430	-
Differences between expected and actual experience in the measurement of the total pension liability	2,065,501	-
Changes of assumptions	8,421,254	678,803
Total	$ 19,955,550	$ 678,803

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	$ (54,041)
2020	2,301,139
2021	839,481
2022	(1,092,149)
Total	$ 1,994,430

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	$ 4,606,162
2020	4,183,315
2021	3,192,565
Total	$ 11,982,042

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%)	$ 84,827,308
Current discount rate (7.15%)	57,653,863
1% increase (8.15%)	35,111,215

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 $8,066,963 (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 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

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

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Juniper MS - Repurpose	$ 1,570,268	January 2019
Millen MS & SAGE Academy	19,816	September 2018
	$ 1,590,084	

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

The District participates in the following public entity risk pools. The Self-Insured Schools of California (SISC II) provides property and liability insurance coverage. The District participates in the Self-Insured Schools of California (SISC III) for health benefits coverage. The Self-Insurance Risk Management Authority (SIRMA I) provides workers' compensation administration. Annual premiums are paid to each JPA.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

During the year ended June 30, 2018, the District made payments of $1,242,308, $15,079 053, and $3,501,854, to SISC II, SISC III, and SIRMA I, respectively.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Government-Wide Financial Statements	
Net Position - Beginning	$ 84,284,196
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(99,366,718)
Net Position - Beginning, as restated	$ (15,082,522)

REQUIRED SUPPLEMENTARY INFORMATION

PALMDALE 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	$ 177,090,691	$ 175,891,902	$ 175,110,032	$ (781,870)
Federal sources	15,719,611	16,941,731	17,769,111	827,380
Other State sources	7,730,006	13,176,075	20,517,295	7,341,220
Other local sources	16,501,955	18,347,305	22,540,599	4,193,294
Total Revenues [1]	217,042,263	224,357,013	235,937,037	11,580,024
EXPENDITURES				
Current				
Certificated salaries	91,676,084	95,741,990	95,815,548	(73,558)
Classified salaries	28,258,637	30,463,582	30,341,983	121,599
Employee benefits	58,571,011	57,550,364	64,806,507	(7,256,143)
Books and supplies	20,562,742	15,724,391	14,490,865	1,233,526
Services and operating expenditures	27,453,119	28,828,831	28,682,416	146,415
Other outgo	(1,036,533)	(1,460,617)	(1,473,623)	13,006
Capital outlay	8,047,970	8,946,247	9,012,855	(66,608)
Debt service - principal	63,480	63,480	880,300	(816,820)
Debt service - interest	251,748	251,748	209,059	42,689
Total Expenditures [1]	233,848,258	236,110,016	242,765,910	(6,655,894)
Excess (Deficiency) of Revenues Over Expenditures	(16,805,995)	(11,753,003)	(6,828,873)	4,924,130
Other Financing Sources (Uses)				
Other sources - municipal lease financing	-	-	138,000	138,000
Transfers out	-	(1,137,618)	(970,547)	167,071
Net Financing Sources (Uses)	-	(1,137,618)	(832,547)	305,071
NET CHANGE IN FUND BALANCE	(16,805,995)	(12,890,621)	(7,661,420)	5,229,201
Fund Balance - Beginning	73,357,888	73,357,888	73,357,888	-
Fund Balance - Ending	$ 56,551,893	$ 60,467,267	$ 65,696,468	$ 5,229,201

[1] On behalf payments of $8,066,963 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

PALMDALE SCHOOL DISTRICT

SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON STATEMENT
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Federal sources	$ 16,393,122	$ 16,393,122	$ 12,804,192	$ (3,588,930)
Other State sources	44,037,517	44,181,467	44,907,166	725,699
Other local sources	-	165,000	201,089	36,089
Total Revenues	60,430,639	60,739,589	57,912,447	(2,827,142)
EXPENDITURES				
Current				
Other outgo	60,430,639	61,656,409	64,943,220	(3,286,811)
NET CHANGE IN FUND BALANCE	-	(916,820)	(7,030,773)	(6,113,953)
Fund Balance - Beginning	10,409,152	10,409,152	10,409,152	-
Fund Balance - Ending	$ 10,409,152	$ 9,492,332	$ 3,378,379	$ (6,113,953)

See accompanying note to required supplementary information.

PALMDALE 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	$ 8,325,990
Interest	5,297,843
Changes of assumptions	(1,153,713)
Benefit payments	(7,312,238)
Net change in total OPEB liability	5,157,882
Total OPEB liability - beginning	151,149,041
Total OPEB liability - ending	$ 156,306,923
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.

PALMDALE 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	0.3079%
District's proportionate share of the net OPEB liability	$ 1,295,213
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.

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PALMDALE 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	0.1701%	0.1719%
District's proportionate share of the net pension liability	$ 157,263,279	$ 139,000,938
State's proportionate share of the net pension liability associated with the District	93,035,627	79,130,754
Total	$ 250,298,906	$ 218,131,692
District's covered - employee payroll	$ 95,778,967	$ 80,082,321
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	164%	174%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.2415%	0.2341%
District's proportionate share of the net pension liability	$ 57,653,863	$ 46,238,499
District's covered - employee payroll	$ 31,062,270	$ 25,411,817
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	186%	182%
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
0.1636%	0.1600%
$ 110,172,901	$ 93,513,326
58,269,319	56,467,384
$ 168,442,220	$ 149,980,710
$ 75,381,520	$ 71,434,578
146%	131%
74%	77%
0.2224%	0.2111%
$ 32,785,861	$ 23,962,077
$ 24,723,898	$ 22,296,887
133%	107%
79%	83%

PALMDALE SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
Contractually required contribution	$ 13,336,516	$ 12,048,994
Contributions in relation to the contractually required contribution	13,336,516	12,048,994
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 92,422,148	$ 95,778,967
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 5,300,275	$ 4,313,928
Contributions in relation to the contractually required contribution	5,300,275	4,313,928
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 34,127,068	$ 31,062,270
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
	$ 8,592,833	$ 6,693,879
	8,592,833	6,693,879
	$ -	$ -
	$ 80,082,321	$ 75,381,520
	10.73%	8.88%

	$ 3,010,538	$ 2,910,250
	3,010,538	2,910,250
	$ -	$ -
	$ 25,411,817	$ 24,723,898
	11.847%	11.771%

PALMDALE SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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.

These schedules 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 General Fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
Funds	Budget	Actual*	Excess
General Fund	$ 237,247,634	$ 243,736,457	$ 6,488,823

* Includes on behalf payment of $8,066,963.

Special Education Pass-Through Fund	$ 61,656,409	$ 64,943,220	$ 3,286,811

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.

***Change in Benefit Terms* –** There were no changes in benefits during the year.

***Change of Assumptions* –**Changes of assumptions and other inputs reflect a change in the discount rate from 3.40 percent in 2017 to 3.50 percent in 2018.

PALMDALE SCHOOL DISTRICT

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 position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

> ***Changes in Benefit Terms*** **–** There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
>
> ***Changes of Assumptions*** **–** The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

PALMDALE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through to Sub-Recipients
U.S. DEPARTMENT OF EDUCATION				
Magnet Schools Assistance Program	84.165A	58101	$ 1,678,999	$ -
Passed through California Department of Education (CDE):				
Elementary and Secondary Education Act, as amended by the Every Student Succeeds Act (ESSA)				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	6,443,677	-
Title I, School Improvement Grant (SIG) Cohort 4 L/A	84.377	15364	1,951,547	-
Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	132,315	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	590,961	-
Title III, Immigrant Student Program	84.365	15146	13,933	-
Title III, English Learner Student Program	84.365	14346	509,344	-
Special Education (IDEA) Cluster				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	14,424,208	12,048,474
Preschool Grants, Part B, Sec 619	84.173	13430	335,251	335,251
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	1,266,297	1,266,297
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	1,425,487	1,338,171
Preschool Staff Development, Part B, Sec 619	84.173A	13431	4,124	3,030
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	67,457	67,457
Subtotal Special Education (IDEA) Cluster			17,522,824	15,058,680
Early Intervention Grants	84.181	23761	221,630	193,926
Total U.S. Department of Education			29,065,230	15,252,606
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster				
National School Lunch Program	10.555	13396	6,867,421	-
Especially Needy Breakfast Program	10.553	13526	4,095,918	-
Basic School Breakfast Program	10.553	13390	33,682	-
Commodities	10.555	13396	809,844	-
Summer Food Service Program Operations	10.559	13004	67,861	-
Subtotal Child Nutrition Cluster			11,874,726	-
Child and Adult Care Food Program	10.558	13666	671,663	-
Cash in Lieu of Commodities	10.558	13389	27,277	-
Total U.S. Department of Agriculture			12,573,666	-

See accompanying note to supplementary information.

PALMDALE SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through to Sub-Recipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Child Care Resource Center:				
Head Start:				
Head Start - Basic	93.600	10016	$ 10,013,832	$ -
Head Start - Duration	93.600	10016	1,108,079	-
Head Start Basic Training and Technical Assistance	93.600	10016	46,778	-
Early Head Start - Basic	93.600	10016	1,068,344	-
Early Head Start Training and Technical Assistance	93.600	10016	16,147	-
Subtotal Head Start:			12,253,180	-
Passed through California Department of Health Services:				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	1,003,108	-
Passed through Los Angeles County Office of Education:				
Medi-Cal Administrative Activities	93.778	10060	587,583	-
Subtotal Medicaid Cluster			1,590,691	-
Total U.S. Department of Health and Human Services			13,843,871	-
Total Expenditures of Federal Awards			$ 55,482,767	$ 15,252,606

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Palmdale School District was established in 1888. The District operates 18 elementary schools, one grade kindergarten to eight school, five middle schools, a community day school, an independent study program, and two learning centers. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Nancy Smith	President	2018
Sharon Vega	Clerk	2020
Joyce Ricks	Member	2018
Dennis Trujillo	Member	2020
Ralph Veladar	Member	2018

ADMINISTRATION

Raul Maldonado	Superintendent
Stacy Bryant	Deputy Superintendent
Frances Ufondu, Ed.D.	Chief Business Officer
Tracy Marsh	Assistant Superintendent, Human Resources
Elena Esquer	Assistant Superintendent, Educational Services
John Porter, Ed. D.	Assistant Superintendent, Special Education/Student Services

See accompanying note to supplementary information.

PALMDALE 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	8,316.20	8,302.28
Fourth through sixth	6,079.01	6,061.56
Seventh and eighth	3,318.99	3,315.11
Total Regular ADA	17,714.20	17,678.95
Extended Year Special Education		
Transitional kindergarten through third	12.97	12.97
Fourth through sixth	10.69	10.69
Seventh and eighth	4.15	4.15
Total Extended Year Special Education	27.81	27.81
Community Day School		
Transitional kindergarten through third	8.90	9.50
Fourth through sixth	15.13	18.48
Seventh and eighth	16.37	17.26
Total Community Day School	40.40	45.24
Total ADA	17,782.41	17,752.00

See accompanying note to supplementary information.

PALMDALE 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	60,655	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		58,135	180	N/A	Complied
Grade 2		58,135	180	N/A	Complied
Grade 3		58,135	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		58,135	180	N/A	Complied
Grade 5		58,135	180	N/A	Complied
Grade 6		58,135	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,135	180	N/A	Complied
Grade 8		58,135	180	N/A	Complied

See accompanying note to supplementary information.

PALMDALE 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.

	Special Education Pass-Through Fund
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	$ 15,445,439
Increase in:	
Accounts payable	(12,067,060)
Balance, June 30, 2018, Audited Financial Statement	$ 3,378,379

See accompanying note to supplementary information.

PALMDALE SCHOOL DISTRICT

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

	(Adopted Budget) 2019 [1]	2018	(as restated) 2017	2016
GENERAL FUND [3]				
Revenues	$ 235,136,260	$ 227,867,270	$ 227,825,773	$ 216,922,594
Other sources and transfers in	-	138,000	6,723,382	-
Total Revenues and Other Sources	235,136,260	228,005,270	234,549,155	216,922,594
Expenditures	246,267,435	234,698,947	224,859,424	197,429,316
Other uses and transfers out	-	970,547	1,971,071	303,712
Total Expenditures and Other Uses	246,267,435	235,669,494	226,830,495	197,733,028
INCREASE (DECREASE) IN FUND BALANCE	$ (11,131,175)	$ (7,664,224)	$ 7,718,660	$ 19,189,566
ENDING FUND BALANCE	$ 54,383,549	$ 65,514,724	$ 73,178,948	$ 65,460,288
AVAILABLE RESERVES [2]	$ 9,838,354	$ 14,489,708	$ 46,561,817	$ 33,916,221
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.0%	6.1%	20.5%	17.2%
LONG-TERM OBLIGATIONS [4]	N/A	$305,954,350	$ 296,874,001	$ 133,233,688
K-12 AVERAGE DAILY ATTENDANCE AT P-2	17,435	17,782	18,167	18,227

The General Fund balance has increased by $54,436 over the past two years. The fiscal year 2018-2019 budget projects a decrease of $11,131,175 (17.0 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $172,720,662 over the past two years.

Average daily attendance has decreased by 445 over the past two years. An additional decline of 347 ADA is anticipated during fiscal year 2018-2019.

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

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

[4] 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.

PALMDALE SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Name of Charter School	Included in Audit Report
Antelope Valley Learning Academy (Charter No. 0841)	No
Guidance Charter School (Charter No. 0427)	No
The Palmdale Aerospace Academy (Charter No. 1367)	No

See accompanying note to supplementary information.

PALMDALE SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS				
Deposits and investments	$ -	$ 3,749,056	$ 652,510	$ 10,448,790
Receivables	2,652,337	1,551,893	3,693	20,191
Stores inventories	-	144,086	-	-
Total Assets	$ 2,652,337	$ 5,445,035	$ 656,203	$ 10,468,981
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	$ 1,923,409	$ -	$ -	$ -
Accounts payable	487,085	442,570	8,154	137,041
Unearned revenue	-	-	-	1,316,040
Total Liabilities	2,410,494	442,570	8,154	1,453,081
Fund Balances:				
Nonspendable	-	144,086	-	-
Restricted	79,966	4,595,977	648,049	8,156,102
Assigned	161,877	262,402	-	859,798
Total Fund Balances	241,843	5,002,465	648,049	9,015,900
Total Liabilities and Fund Balances	$ 2,652,337	$ 5,445,035	$ 656,203	$ 10,468,981

See accompanying note to supplementary information.

Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ 13,973,122	$ 7,898,955	$ 202,576	$ 36,925,009
21,907	-	-	4,250,021
-	-	-	144,086
$ 13,995,029	$ 7,898,955	$ 202,576	$ 41,319,116
$ -	$ -	$ -	$ 1,923,409
982,120	-	-	2,056,970
-	-	-	1,316,040
982,120	-	-	5,296,419
-	-	-	144,086
10,960,902	7,898,955	202,576	32,542,527
2,052,007	-	-	3,336,084
13,012,909	7,898,955	202,576	36,022,697
$ 13,995,029	$ 7,898,955	$ 202,576	$ 41,319,116

PALMDALE SCHOOL DISTRICT

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

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES				
Federal sources	$ 12,952,120	$ 11,874,726	$ -	$ -
Other State sources	3,023,668	955,464	-	3,522,972
Other local sources	1,203	1,259,484	434,399	64,879
Total Revenues	15,976,991	14,089,674	434,399	3,587,851
EXPENDITURES				
Current				
Instruction	7,590,783	-	-	-
Instruction-related activities:				
Supervision of instruction	3,989,980	-	-	-
School site administration	1,163,935	-	-	-
Pupil services:				
Food services	736,691	13,958,837	-	-
All other pupil services	570,575	-	-	-
Administration:				
All other administration	1,047,674	687,624	58,944	-
Plant services	914,056	26,100	81,010	396,504
Facility acquisition and construction	62,929	-	-	4,620,743
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	16,076,623	14,672,561	139,954	5,017,247
Excess (Deficiency) of Revenues Over Expenditures	(99,632)	(582,887)	294,445	(1,429,396)
Other Financing Sources				
Transfers in	100,834	-	-	-
Other sources - proceeds from municipal lease financing	-	-	-	8,151,614
Net Financing Sources	100,834	-	-	8,151,614
NET CHANGE IN FUND BALANCES	1,202	(582,887)	294,445	6,722,218
Fund Balances - Beginning	240,641	5,585,352	353,604	2,293,682
Fund Balances - Ending	$ 241,843	$ 5,002,465	$ 648,049	$ 9,015,900

See accompanying note to supplementary information.

Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ 24,826,846
-	69,951	-	7,572,055
96,676	6,911,489	2,478,711	11,246,841
96,676	6,981,440	2,478,711	43,645,742
-	-	-	7,590,783
-	-	-	3,989,980
-	-	-	1,163,935
-	-	-	14,695,528
-	-	-	570,575
-	-	-	1,794,242
-	-	-	1,417,670
10,701,239	-	-	15,384,911
-	1,370,000	2,755,000	4,125,000
1,922	3,678,333	369,363	4,049,618
10,703,161	5,048,333	3,124,363	54,782,242
(10,606,485)	1,933,107	(645,652)	(11,136,500)
-	-	-	100,834
-	-	-	8,151,614
-	-	-	8,252,448
(10,606,485)	1,933,107	(645,652)	(2,884,052)
23,619,394	5,965,848	848,228	38,906,749
$ 13,012,909	$ 7,898,955	$ 202,576	$ 36,022,697

PALMDALE SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 55,400,149
Medi-Cal Billing Option	93.778	82,618
Total Schedule of Expenditures of Federal Awards		$ 55,482,767

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 1986-87 requirements, as required by *Education Code* Section 46201.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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

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

INDEPENDENT AUDITOR'S REPORTS

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

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

Governing Board
Palmdale School District
Palmdale, 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 Palmdale 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 Palmdale School District's basic financial statements, and have issued our report thereon dated December 17, 2018

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

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

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

We noted certain matters that we reported to management of Palmdale School District in a separate letter dated December 17, 2018.

Purpose of This Report

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

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 17, 2018

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Palmdale School District
Palmdale, California

Report on Compliance for Each Major Federal Program

We have audited Palmdale School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palmdale School District's major Federal programs for the year ended June 30, 2018. Palmdale School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Palmdale School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Palmdale School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Palmdale School District's compliance.

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Opinion on Each Major Federal Program

In our opinion, Palmdale School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Palmdale School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Palmdale School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Palmdale School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

VAVRINEK, TRINE, DAY + CO. LLP

Rancho Cucamonga, California
December 17, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Palmdale School District
Palmdale, California

Report on State Compliance

We have audited Palmdale 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 Palmdale School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion

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

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In connection with the audit referred to above, we selected and tested transactions and records to determine the Palmdale School 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	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
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, but the ADA generated by the program was below the level at which testing is required; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Continuation Education Attendance Program; therefore, we did not perform procedures related to the Work Experience Program within 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 have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

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

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

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

The Charter Schools are independent of the District; therefore, we did not perform any procedures related to charter schools.

VAVRINEK, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 17, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALMDALE SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.027A, 84.173, and 84.173A	Special Education (IDEA) Cluster
84.165A	Magnet Schools Assistanct Program
84.377	Title I, School Improvement Grant (SIG) Cohort 4 L/A
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,664,483
Auditee qualified as low-risk auditee?	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.

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

None reported.

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

None reported.

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 financial statement findings.

Financial Statements Findings

Capital Assets (Material Weakness)

2017-001 30000

Criteria or Specific Requirements

Education Code Section 35168 requires the District to establish and maintain an inventory of all capital assets. GASB Statement 34 also requires the accounting for capital assets in excess of the District's capitalization threshold ($5,000). In order to ensure the accurate reporting of capital assets, the District must establish procedures to track and monitor capital asset activity on an annual basis, including acquisitions, dispositions, and construction in process activities.

Condition

The District currently does not have an adequate system in place to track and monitor capital asset activities. While the District utilizes multiple worksheets to track capital assets, the worksheets used do not appear to be updated on an annual basis to ensure that all assets are included for depreciation. Specifically, the equipment inventory has not been reconciled to ensure that all equipment reported exists.

Questioned costs

There were no questioned costs associated with this condition.

Context

The condition was identified through our inquiry with District personnel and also through review of available District records related to the capital assets activities.

Effect

Amounts recorded for capital assets in the district's financial statements could be misstated.

Cause

The condition identified above appears to be caused by the lack of formal procedures related to this process, including the assignment of personnel to track and monitor capital asset activities on a regular basis.

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

Recommendation

The District should establish and enforce formalized procedures related to monitoring capital asset activities. Such procedures should include monthly review and reconciliation of capital asset additions and input into capital asset system for depreciation; procedures for disposal of assets including timelines for when the inventory counts will be performed along with a process for reconciling physical inventory count information with the perpetual capital asset listing.

Current Status

Implemented

State Awards Findings

Instructional Materials

2017-002 70000

Criteria or Specific Requirements

According to the California *Education Code* Section 60119, for the District to be eligible to receive funds under the Instructional Material, the governing board shall hold a public hearing regarding whether each pupil in each school in the District has sufficient instructional materials. The public hearing shall take place on or before the end of the eight week from the first day pupils attend school for that year

Condition

The District did hold the public hearing as required by California *Education Code* Section 60119. The public hearing was held after the eight week from the first day pupils attended school.

Questioned Costs

For 2016-2017, there is no financial impact resulting from noncompliance.

Context

The District held the public hearing after the eight week from the first day pupils attended school. This was identified through review of board meeting minutes and board resolution.

Effect

As a result of our testing, the District was not compliant with *Education Code* Section 60119 for the 2016-2017 fiscal year, since the District held the public hearing after the eight week from the first day pupils attended school.

Cause

No specific cause was identified, other than it was simply an oversight.

Recommendation

It is recommended that the District implement procedures to ensure that the public hearing is held on or before the end of the eighth week from the first day pupils attend school for that year.

Current Status

Implemented

After School Education and Safety Program (ASES)

2017-003 40000

Criteria or Specific Requirements

According to the California *Education Code* Section 8483(a)(1), every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program.

Condition

The District has gathered monthly summaries of student attendance for submission to the State in order to meet the semi-annual reporting requirement. However, in reviewing Desert Rose Elementary School's monthly summary total for the month of October 2016 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ. Desert Rose Elementary School's attendance rosters had a total of 1,686 students served whereas the total of the monthly summary are 1,699 students served, resulting in 13 exceptions. Exceptions consisted of 13 students who were released before 6PM on a daily basis but had no early release code documented on the attendance roster. In addition, in reviewing Summerwind Elementary School's monthly summary total for the month of October 2016 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ. Summerwind Elementary School's attendance rosters had a total of 1,372 students served whereas the total of the monthly summary are 1,379 students served, resulting in seven exceptions. Exceptions consisted of seven students who were released before 6PM on a daily basis but had no early release code documented on the attendance roster.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, for two of the sites tested, there were 20 of 3,078 students served during the month of October 2016 for which the attendance rosters did not confirm to the District's early release policy.

Context

The condition identified resulted from our review of Desert Rose Elementary School's and Summerwind Elementary School's attendance records and monthly attendance summary totals for the month of October 2016. The auditor selected two of 11 schools for the first semi-annual reporting period dated July to December 2016. The auditor also noted that for the month of October 2016, Desert Rose Elementary School and Summerwind Elementary School did not have early release code documented on the attendance roster for students that were being released before 6PM on a daily basis

Effect

As a result of the conditions identified, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2016-2017 fiscal year for Desert Rose Elementary School and Summerwind Elementary School as the report submitted to the State reflects inaccurate attendance information.

Cause

It appears that the condition identified has materialized as a result of the site utilizing the number of students attended for a particular day rather than recounting the rosters to ensure the sites deduct those students who are not in compliance with the established early release policy. The sites did not have early release reason documented on the rosters for those students who were consistently released early from the ASES program.

Recommendation

The District should inform the sites regarding their early release policy including the importance of having an early release reason documented on the rosters for students who are continually released early. Also prior to submission of attendance information to the State, the District should ensure the monthly summaries agree to the attendance summaries. An individual from the District should review and re-compute monthly attendance numbers per school site in order to verify that accurate information is being sent to the State for reporting.

Current Status

Implemented

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VALUE THE *difference*

Governing Board
Palmdale School District
Palmdale, California

In planning and performing our audit of the financial statements of Palmdale School District (the District), for the year ended June 30, 2018 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 17, 2018, on the government-wide financial statements of the District.

Special Education Pass-Through Fund

<u>Observation</u>

The District maintains the Special Education Pass-Through Fund, Fund 10, due to its role as the Administrative Unit (AU) of the Antelope Valley Special Education Local Plan Area (SELPA). This fund is used to account for special education revenue passed through to other member school districts. Special education revenues that are not passed through to other member school districts, but are retained for use by the SELPA are not accounted for in this fund, but are transferred to the SELPA's sub fund within the District's General Fund.

The District records all SELPA revenue in Fund 10. When the revenues are distributed to member districts, Palmdale School District's revenues are recorded as revenue in the General Fund. This results in Palmdale SD's revenue and disbursements being booked twice entity wide.

In addition, Fund 10 ended the year with an unaudited fund balance of $15,445,439. Due to the purpose of the fund, all monies received are owed to SELPA member districts. There should be no ending balance, as all funds should be accrued as accounts payable. The SELPA accounting clerk was able to provide documentation regarding $12,067,060 of amounts due to member districts. The remaining $3,378,379, remains unreconciled.

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Recommendation

The California School Accounting Manual (CSAM) states that, "Special education revenues that are not passed through to other member local education agencies (LEAs), but instead are retained for use by the AU in accordance with the local plan, are not accounted for in Fund 10. These revenues and the related expenditures are operational in nature and are accounted for in the AU's own general fund."

When SELPA funds are received by the District, the amounts due to SELPA member districts should be recorded in Fund 10 for distribution. The amounts allocated to Palmdale SD should be recorded in the appropriate accounts in the District's General Fund.

The remaining balance in Fund 10 should be reconciled to the SELPA's funding model and distributions made to date to determine the proper allocation for the funds. At year end the fund balance in the account should be zero as all monies will be distributed or accrued in anticipation of distribution.

INTERNAL CONTROLS

General Clearing

Observation

During our review of the supporting documents pertaining to the District's general clearing of local revenues, we noted that 33 of 42 receipts tested were not deposited in a timely manner. Based on our review of sample transmittals selected for testing, it appears that delays in deposits ranged from 11 to 45 days. The delay in cash deposits can increase the risk of theft, loss, or misappropriation.

Recommendation

The District should adhere to its established procedures related to frequency of deposits. The frequency of deposits may need to be increased depending on the amount of cash collected. At a minimum, the District should try to make a deposit once a week to reduce the risks associated with theft, loss, and misappropriation.

Observation

Cash collections at certain school sites and departments are not accounted for properly. Cash collections are not supported by sub-receipts that tie the total to the cash count sheet. Four of 42 receipts tested did not have sufficient support or a paper trail; therefore, the auditor was unable to confirm if these deposits were intact and deposited in a timely manner.

Recommendation

Pre-numbered triplicate receipts or logs should be used when collecting money. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies. The white copy of the receipt should be issued to the person turning in the monies, the yellow receipt or log sheet should be utilized for deposit backup, and the pink copy should be retained in the receipt book for audit purposes.

Observation

The Account Clerk performs the site deposit counts alone at the District Office. Not having a second person present creates an opportunity for cash to be misappropriated.

Recommendation

We recommend that the department revise their site deposit count procedures to have two people perform the count together and both sign the cash count sheet to reduce the risk of misappropriation of cash.

Cafeteria Clearing

Observation

In our review of the supporting documents, we noted that for 19 of 53 site deposits, cafeteria site staff performed the closeout deposit counts alone. Not having a second person present creates an opportunity for cash to be misappropriated.

Recommendation

We recommend that the cafeteria site staff adhere to their site deposit count procedures of having two people perform the count together with both signing off the cash count sheet to reduce the risk of misappropriation of cash.

NON-PAYROLL DISBURSEMENTS

Observation

We noted that four of 40 disbursements selected for testing were not approved prior to the transaction taking place. This would indicate that the items/services were purchased prior to receiving an approval.

Recommendation

All disbursements should be approved in advance of the transaction taking place. Disbursements should go through multiple levels of approval. One of the most important approvals is by the Fiscal Services Department. The Fiscal Services Department is responsible for reviewing account coding and making sure that expenditures are included in established budgets.

Observation

It was noted that five of 40 travel and conference disbursements selected for testing were not preapproved. This could potentially lead to expenditures of a questionable nature, or expenditures in excess of available budgets.

Recommendation

The District should take the necessary steps to ensure that all conference related expenditures are supported by an authorized conference request and reimbursement form that is approved in advance of costs being incurred. This would allow the reviewing administrator to determine if the proposed conference related activities are appropriate for the funding source and fit the District's plan for staff development.

PAYROLL – VACATION ACCRUALS

Observation

The District relies on a manual recording process using a spreadsheet for vacation time tracking. The potential for errors is higher with a manual system as compared to an automated system. In addition, there is no procedure in place for a regular, independent review for accuracy of the vacation hours accrued and posted.

Recommendation

The District should consider designing and implementing an independent review procedure to verify if the accruals are accurately calculated. This would allow the District to identify inaccuracies and obtain assurance that accruals represented on the spreadsheet are representative of the actual employee accruals. It is especially important that there is an independent review of vacation activity used and posted for all personnel who have access to the manual vacation accrual spreadsheets to ensure that their vacation accrual has not been manipulated during the year.

Observation

Per review of District vacation request procedures, we noted there is no process in place to ensure employee vacation requests are not in excess of vacation time accrued. Employees' immediate supervisors are responsible for approving vacation requests. However, only the payroll department has the ability to view how much vacation time an employee has accrued at any given time. The payroll department is only notified of employee vacations once time cards are submitted at the end of the payroll month. Any vacation time taken in excess of accrued amounts will be docked from the employee's subsequent pay check.

Recommendation

The District should design and implement a procedure that requires supervisors to verify an employee has sufficient vacation time accrued in order to meet their vacation requests. In addition, the payroll department should be notified of all approved employee vacations to ensure vacation accruals are updated on a timely basis.

ASSOCIATED STUDENT BODY (ASB)

Los Amigos Elementary School

Observations

During our review of the associated student body procedures, we noted the following:

1. Cash collections are not receipted at the time funds are collected. For three of eight deposit batches tested, the ASB completed a triplicate receipt on the date the clerk processed the deposit batch.
2. Based on the review of the disbursement procedures it was noted that one of five disbursements tested was not approved prior to the transaction taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved.
3. In reviewing the revenue potential forms, we noted that both revenue potential forms were not completely filled out. Explanation for differences between budget and actual cash collected was not documented.
4. During the review of the bank reconciliation procedures, it was noted that five of the checks were more than six months old. The check dates ranged from 6/11/2015 to 10/7/2016.

Recommendations

1. The ASB is already utilizing a triplicate receipt book, but should alter the procedures to ensure that receipts are issued at the time funds are received. The original copy of the receipt should be given to the payee at the time the payment is made. This process will ensure that all deposits are made intact, timely, and sequentially.
2. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.
4. Outstanding checks should be monitored by the personnel in charge of preparing the bank reconciliations and outstanding checks of 6 months should be stale dated.

Governing Board
Palmdale School District

David G. Millen Intermediate School

Observations

During our review of the associated student body procedures, we noted the following:

1. Of 22 deposits tested, 20 were not deposited in a timely manner. The delays in deposit ranged from approximately 11 to 40 days from the date of receipt. This could result in large cash balances being maintained at the sites that can hinder the safeguarding of ASB assets.
2. Both of the revenue potential forms selected for testing were not completely filled out. Explanations for differences between budget and actual cash collected were not documented.

Recommendations

1. The ASB should make their deposits at least once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. Revenue potentials should be prepared to assist the ASB in identifying whether or not a fundraiser will be successful. By completing the expected results section of the revenue potential, the ASB will know how much profit should be made from the fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained to ensure that there are no proceeds or inventory unaccounted for. This also allows for a determination to be made as to whether or not it is beneficial to conduct the fundraiser in the future.

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day + Co. LLP

Rancho Cucamonga, California
December 17, 2018

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

[Date of Delivery]

Palmdale School District
Palmdale, California

Palmdale School District
(Los Angeles County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Palmdale School District (the "District"), which is located in the County of Los Angeles (the "County"), in connection with the issuance by the District of $__________ aggregate principal amount of bonds designated as "Palmdale School District (Los Angeles County, California) General Obligation Bonds, Election of 2018, Series 2019" (the "Series 2019 Bonds"), representing part of an issue in the aggregate principal amount of $80,000,000 authorized at an election held in the District on November 6, 2018. The Series 2019 Bonds are issued under and pursuant to a resolution of the Board of Trustees of the District adopted on October 15, 2019 (the "Resolution").

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2019 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2019 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series

2019 Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated __________, 2019, or other offering material relating to the Series 2019 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2019 Bonds constitute valid and binding obligations of the District.

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

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

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

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Palmdale School District (the "District") in connection with the issuance of $__________ aggregate principal amount of Palmdale School District (Los Angeles County, California) General Obligation Bonds, Election of 2016, Series 2019 (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on October 15, 2019 (the "Resolution"). The District covenants and agrees as follows:

Section 1. <u>Purpose of the Disclosure Certificate</u>. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. <u>Definitions</u>. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

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

"Dissemination Agent" shall mean Mission Trail Advisors, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Financial Obligation" shall mean, for the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <u>http://emma.msrb.org</u>.

"Official Statement" shall mean the Official Statement, dated __________, 2019 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

"Participating Underwriter" shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. <u>Provision of Annual Reports</u>. (a) The District shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the District's fiscal year, commencing with the report for the 2018-19 Fiscal Year (which is due not later than March 26, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. <u>Content of Annual Reports</u>. The District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year;

(ii) Information regarding total assessed valuation of properties within the District, if and to the extent provided to the District by the County of Los Angeles (the "County");

(iii) Information regarding twenty taxpayers with the greatest combined ownership of taxable property in the District, if and to the extent provided to the District by the County; and

(iv) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

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

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

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

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

(vi) tender offers;

(vii) defeasances;

(viii) rating changes;

(ix) bankruptcy, insolvency, receivership or similar event of the District; or

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

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

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

(ii) modifications to rights of Bond Holders;

(iii) Bond calls;

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

(v) non-payment related defaults;

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

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or

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

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), and the definition of "Financial Obligation" in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the "2018 Release"), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

Section 6. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Mission Trail Advisors, LLC.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: __________, 2019

PALMDALE SCHOOL DISTRICT

By: ___________________________________

ACCEPTED AND AGREED TO:

MISSION TRAIL ADVISORS, LLC,
as Dissemination Agent

By: ___________________________________
Authorized Signatory

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	**PALMDALE SCHOOL DISTRICT**
Name of Issue:	Palmdale School District (Los Angeles County, California) General Obligation Bonds, Election of 2016, Series 2019
Date of Issuance:	__________, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated __________, 2019. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

PALMDALE SCHOOL DISTRICT

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APPENDIX E

THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The Treasurer and Tax Collector of the County of Los Angeles (the "Treasurer") manages, in accordance with California Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool (the "Treasury Pool") as described below. The composition and value of investments under management in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally. The Treasurer maintains a website, the address of which is http://ttc.lacounty.gov, on which the Treasurer periodically places information relating to the Treasury Pool. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series 2019 Bonds.

County of Los Angeles Pooled Surplus Investments

The Treasurer and Tax Collector (the "Treasurer") of the County of Los Angeles (the "County") has the delegated authority to invest funds on deposit in the County Treasury (the "Treasury Pool"). As of August, 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 (the “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.

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

APPENDIX F

COUNTY OF LOS ANGELES 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

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

28 March 19, 2019

CELIA ZAVALA
EXECUTIVE OFFICER

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 not 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.

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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.

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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.

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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).

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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.

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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

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2019 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2019 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2019 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend 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 redemption proceeds, distributions and dividend 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. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.