PRELIMINARY OFFICIAL STATEMENT DATED MARCH 27, 2019

NEW ISSUE — BOOK ENTRY ONLY

RATINGS: Fitch: "AAA"
Moody's: "Aa3"
(See "RATINGS" herein.)

In the opinion of Dannis Woliver Kelley, Bond Counsel to the District, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Bonds with certain covenants contained in the Resolutions authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

$60,000,000*	**$31,000,000***
SANTA ANA UNIFIED SCHOOL DISTRICT	**SANTA ANA UNIFIED SCHOOL DISTRICT**
(Orange County, California)	**(Orange County, California)**
GENERAL OBLIGATION BONDS,	**2019 GENERAL OBLIGATION**
2018 ELECTION, 2019 SERIES A	**REFUNDING BONDS**

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

The Santa Ana Unified School District (Orange County, California) General Obligation Bonds, 2018 Election, 2019 Series A (the "Series A Bonds") are being issued by the Santa Ana Unified School District (the "District") to (i) finance the acquisition, construction, furnishing and equipping of District facilities and (ii) to pay certain costs of issuance associated therewith, as more fully described herein under the caption "PLAN OF FINANCE – The Projects." The Series A Bonds were authorized at an election within the District held on November 6, 2018 (the "Election") at which at least fifty-five percent of the registered voters voting on the proposition voted to authorize the issuance and sale of $232,000,000 aggregate principal amount of general obligation bonds of the District (the "Authorization"). The Series A Bonds are the first series of general obligation bonds issued under the Authorization.

The Santa Ana Unified School District 2019 General Obligation Refunding Bonds (the "Refunding Bonds" and, together with the Series A Bonds, the "Bonds") are being issued by the District to (i) refund certain maturities of the District's outstanding 2009 General Obligation Refunding Bonds and (ii) pay certain costs of issuance associated therewith, as more fully described herein under the caption "PLAN OF FINANCE – The Refunding." The Series A Bonds and the Refunding Bonds are issued on a parity basis with each other and with all other outstanding general obligation bonds of the District.

The Bonds are general obligations of the District only and are not obligations of the County of Orange (the "County"), the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes without limitation as to rate or amount (except for certain personal property which is taxable at limited rates), for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal of, and premium, if any, and interest on each Bond as the same becomes due and payable.

Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2019. See ''THE BONDS'' herein.

The Bonds will be issued in book-entry form only, in denominations of $5,000 or integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds. Payments on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System."

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

MATURITY SCHEDULE
On Inside Cover Pages

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Dannis Woliver Kelley, Long Beach, California, Bond Counsel, and certain other conditions. Dannis Woliver Kelley, Long Beach, California, is acting as Disclosure Counsel for the issue. Certain matters will be passed upon for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about May 7, 2019.

RBC Capital Markets®

The Date of this Official Statement is: April __, 2019.

* Preliminary; subject to change.

MATURITY SCHEDULE

$_______
Santa Ana Unified School District
(Orange County, California)
General Obligation Bonds,
2018 Election, 2019 Series A

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[1] (801155)
2020				
2021				
2022				
2023				
2024				
2025				
2-26				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				
2047				
2048				

$______ ____% Term Bonds due August 1, 20__; Yield _____%, CUSIP[1] 801155

MATURITY SCHEDULE

$____________
Santa Ana Unified School District
(Orange County, California)
2019 General Obligation Refunding Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[2] (801155)
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				

[2] Copyright 2019, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference only. Neither the District nor the Underwriter take any responsibility for the accuracy of such CUSIP number.

SANTA ANA UNIFIED SCHOOL DISTRICT
Orange County, State of California

Board of Education[1]

Valerie Amezcua, *President*
Rigo Rodriguez, Ph.D., *Vice President*
Alfonso Alvarez, Ed.D., *Clerk*
John Palacio, *Member*

District Administrators

Stefanie P. Phillips, Ed.D., *Superintendent*
Thomas A. Stekol, Ed.D., *Deputy Superintendent, Administrative Services*
Alfonso Jimenez, Ed.D., *Deputy Superintendent, Educational Services*
Mark McKinney, *Associate Superintendent, Human Resources*
Manoj Roychowdhury, *Assistant Superintendent, Business Services*
Orin L. Williams, *Assistant Superintendent, Facilities & Governmental Relations*
Sonia R. Llamas, Ed.D., L.C.S.W., *Assistant Superintendent K-12 School Performance and Culture*
Daniel Allen, Ed.D., *Assistant Superintendent, K-12 Teaching and Learning*
Mayra Helguera, Ed.D., *Assistant Superintendent, Special Education/SELPA*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Dannis Woliver Kelley
Long Beach, California

Financial Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Paying Agent, Transfer Agent, Registration Agent and Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

[1] There is currently a vacancy on the Board of Education resulting from a former Board Member's election to the City of Santa Ana City Council.

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

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

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. Although certain information set forth in this Official Statement has been provided by the County of Orange, the County of Orange has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement except for the information set forth under the caption "THE ORANGE COUNTY EDUCATIONAL INVESTMENT POOL."

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 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."

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby 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 Bonds to certain securities dealers, institutional investors, banks or others at prices lower or higher than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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 Bonds.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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$60,000,000*	**$31,000,000***
SANTA ANA UNIFIED SCHOOL DISTRICT	**SANTA ANA UNIFIED SCHOOL DISTRICT**
(Orange County, California)	**(Orange County, California)**
GENERAL OBLIGATION BONDS, 2018 ELECTION, 2019 SERIES A	**2019 GENERAL OBLIGATION REFUNDING BONDS**

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 Bonds to potential investors is made only by means of the entire Official Statement.

The Santa Ana Unified School District (the "District") proposes to issue $60,000,000* aggregate principal amount of its General Obligation Bonds, 2018 Election, 2019 Series A (the "Series A Bonds") under and pursuant to a bond authorization (the "Authorization") for the issuance and sale of not more than $232,000,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the proposition at a general election held on November 6, 2018 (the "Election"). Subsequent to the issuance of the Series A Bonds, $172,000,000* aggregate principal amount of general obligation bonds will remain for issuance pursuant to the Authorization.

Proceeds from the sale of the Series A Bonds will be used to (i) finance the acquisition, construction, furnishing and equipping of District facilities and (ii) to pay certain costs of issuance associated therewith. See "PLAN OF FINANCE – The Projects" herein.

The District also proposes to issue $31,000,000* aggregate principal amount of its 2019 General Obligation Refunding Bonds (the "Refunding Bonds" and together with the Series A Bonds, the "Bonds") in order to (i) refund a portion of its 2009 General Obligation Refunding Bonds (the "2009 Refunding Bonds"), originally issued on December 9, 2009, and (ii) pay all legal, financial and contingent costs in connection with the issuance of the Refunding Bonds. See "PLAN OF FINANCE – The Refunding" herein. The 2009 Refunding Bonds were issued to refund certain general obligation bonds of the District issued pursuant to an authorization (the "1999 Authorization") for the issuance and sale of not to exceed $145,150,000 of general obligation bonds approved by more than 2/3 of the qualified voters of the District voting on the proposition at a general election held on November 2, 1999 (the "1999 Election"), pursuant to which no additional general obligation bonds remain for issuance. Refunding bonds are not counted against the 1999 Authorization amount and therefore, the District may issue the Refunding Bonds, as well as additional refunding bonds in the future, to refund outstanding general obligation bonds issued pursuant to the 1999 Authorization.

The Bonds are issued on a parity basis with each other and all outstanding general obligation bonds of the District.

Registration

The Bank of New York Mellon Trust Company, N.A. will act as the initial registrar, transfer agent and paying agent for the Bonds (the "Paying Agent"). As long as The Depository Trust Company, New York, New York ("DTC") is the registered owner of the Bonds and DTC's book entry-method is

* Preliminary; subject to change.

used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. See "THE BONDS – Description of the Bonds" herein.

The District

The District, established in 1888, is comprised of 24 square miles located in northern Orange County (the "County"). The District serves the residents in portions of the Cities of Santa Ana, Irvine, Newport Beach, Costa Mesa, Orange, Tustin and adjacent unincorporated areas of the County and provides education services in 36 elementary schools, nine middle schools and seven high schools. In addition, the District includes three educational options secondary schools, a deaf and hard of hearing center, two early education centers and an early learner childhood education special needs development center. The District also operates one charter school and there are five independent charter schools operating within the boundaries of the District. The estimated average daily attendance ("ADA") for the District for fiscal year 2018-19 is 45,017 students and the District has a 2018-19 assessed valuation of $33,140,635,319. The audited financial statements for the District for the fiscal year ended June 30, 2018 are attached hereto as APPENDIX B. For further information concerning the District, see the caption "SANTA ANA UNIFIED SCHOOL DISTRICT" herein.

Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal and interest on the Bonds when due. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed by the District in connection with the Bonds. See "THE BONDS – Continuing Disclosure Agreement," "CONTINUING DISCLOSURE" herein and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto.

Professionals Involved in the Offering

Dannis Woliver Kelley, Long Beach, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. The Bank of New York Mellon Trust Company, N.A., Dallas,Texas is acting as registrar, transfer agent, paying agent and escrow agent for the Bonds. Fieldman, Rolapp & Associates, Inc., Irvine, California, is acting as Financial Advisor to the District in connection with the issuance of the Bonds. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as counsel to the Underwriter with respect to the Bonds. The above professionals will receive compensation from the District contingent upon the sale and delivery of the Bonds.

Forward Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the District herein. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Closing Date

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about May 7, 2019.

THE BONDS

Authority for Issuance

The Bonds are general obligations of the District. The Series A Bonds are being issued by the District under the provisions of Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the Government Code of the State of California (the "Government Code") (commencing with Section 53506) and pursuant to a resolution of the Board of Education of the District adopted on January 22, 2019 (the "Series A Resolution").

The Refunding Bonds are being issued by the District under the provisions of Title 5, Division 2, Part 1, Chapter 3, Articles 9 and 11 of the Government Code (commencing with Section 53550) and pursuant to a resolution of the Board of Education of the District adopted on March 26, 2019 (the "Refunding Resolution" and together with the Series A Resolution, the "Resolutions").

Purpose of Issue

The net proceeds of the Series A Bonds will be used to finance certain capital improvements for the District as specified in the District bond proposition submitted at the Election, which includes updating classrooms, science labs and facilities, improving student safety and security, repairing/replacing deteriorating roofs, plumbing and electrical systems and removing asbestos. See "PLAN OF FINANCE – The Projects" herein.

The net proceeds of the Refunding Bonds will be applied to refund a portion of the 2009 Refunding Bonds. See "PLAN OF FINANCE – The Refunding" herein.

Description of the Bonds

The Bonds will be dated their date of delivery and will be issued only as fully registered bonds in denominations of $5,000 principal amount or integral multiples thereof.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of and interest or premium, if any, on the Bonds are payable by wire transfer or New York Clearing House or equivalent next-day funds or by wire transfer of same day funds by The Bank of New York Mellon Trust Company, N.A., as Paying Agent, to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein.

Payment of the Bonds

Interest on the Bonds is payable commencing August 1, 2019, and semiannually thereafter on February 1 and August 1 of each year (each, an "Interest Payment Date"). The Bonds shall be issued in fully registered form, without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest on each Bond shall accrue from its dated date at the interest rates applicable thereto as set forth on the inside cover page hereof. Interest shall be computed using a year of 360 days comprised of twelve 30-day months and shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the fifteenth calendar day of the month next preceding an Interest Payment Date (the "Record Date"). Interest will be payable from the Interest Payment Date next preceding the date of registration thereof, unless (i) it is registered prior to the close of business on July 15, 2019, in which event interest shall be payable from its Dated Date; provided, however, that if at the time of registration of any Bond interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Payments of interest will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the Owner thereof on the Record Date, or by wire transfer to any Owner of $1,000,000 or more of such Bonds, to the account specified by such Owner in a written request delivered to the Paying Agent on or prior to the Record Date for such Interest Payment Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent which shall not be more than 15 days and not less than ten days prior to the date of the proposed payment of defaulted interest.

Redemption*

Optional Redemption – Series A Bonds. The Series A Bonds maturing on or before August 1, 20__ are not subject to redemption prior to maturity. The Series A Bonds maturing on or after August 1, 20__ may be redeemed before maturity at the option of the District, in whole or in part, from any source of available funds, on any date on or after August 1, 20__ at a redemption price equal to the par amount to be redeemed, plus accrued interest to the date of redemption, without premium.

Optional Redemption – Refunding Bonds. The Refunding Bonds maturing on or before August 1, 20__ are not subject to optional redemption prior to maturity. The Refunding Bonds maturing on August 1, 20__ may be redeemed before maturity at the option of the District, in whole or in part, from any source of available funds, on any date on or after August 1, 20__ at a redemption price equal to the par amount to be redeemed, plus accrued interest to the date of redemption, without premium.

* Preliminary; subject to change.

Mandatory Redemption. The Series A Bonds maturing on August 1, 20__ are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 20__, at a redemption price equal to the principal amount thereof as of the date set for such redemption, without premium. The principal amount to be so redeemed and the dates therefore and the final payment date is as indicated in the following table:

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

In the event that a portion of the Series A Bonds maturing on August 1, 20__ is optionally redeemed prior to maturity, the remaining mandatory sinking fund payments shown above shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000 principal amount of such Series A Bonds optionally redeemed.

Selection of Bonds for Redemption

Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the District given at least 45 days prior to the date designated for such redemption, shall select Bonds for redemption in such order as the District may direct. Within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption

When redemption is authorized, the Paying Agent, upon written instruction from the District given at least 45 days prior to the date designated for such redemption, shall give notice of the redemption of the Bonds at least 20 but not more than 60 days prior to the redemption date to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid. Such redemption notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount, as appropriate, of such Bond to be redeemed, (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part and (h) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. Such redemption notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with the interest accrued to the redemption date in the case of Bonds, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Right to Rescind Notice of Redemption

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

Effect of Notice of Redemption

Notice having been given as required in the Series A Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside for payment of the redemption price, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Transfer and Exchange

Any Bond may be exchanged for Bonds of like tenor, series, maturity and principal amount upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Defeasance

If any or all Outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the principal of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund plus the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds Outstanding on their redemption date or at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent pursuant to the respective Resolution, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series Obligations) or obligations which are unconditionally guaranteed by the United States of America and described under Section 149(b) of the Code and Regulations which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient, in the opinion of a verification agent satisfactory to the District, to pay and discharge all Bonds Outstanding at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the respective Resolution with respect to such Outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the respective Resolution.

Book-Entry Only System

The Bonds will be issued under a book-entry system, evidencing ownership of the Bonds in denominations of $5,000 Principal Amount or integral multiples thereof, with no physical distribution of Bonds made to the public. DTC will act as depository for the Bonds, which will be immobilized in their custody. The Bonds will be registered in the name of Cede & Co., as nominee for DTC. For further information regarding DTC and the book entry system, see APPENDIX F hereto.

Continuing Disclosure Agreement

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the District will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), in the form of APPENDIX D hereto, on or prior to the delivery of the Bonds in which the District will undertake, for the benefit of the Beneficial Owners of the Bonds, to provide certain information as set forth therein. See "CONTINUING DISCLOSURE" herein and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto.

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SOURCES AND USES OF FUNDS

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

Sources of Funds	**Series A Bonds**	**Refunding Bonds**	**Total**
Principal Amount of Bonds			
Net Original Issue Premium			
Total Sources			
Uses of Funds			
Deposit to Escrow Fund			
Deposit to Building Fund			
Deposit to Debt Service Fund			
Costs of Issuance[(1)]			
Total Uses			

(1) Includes Underwriter's discount, Bond and Disclosure Counsel fees, financial advisory fees, paying agent and escrow agent fees, rating agency fees, verification agent fees, and other costs of issuance.

District Investments

The Orange County Treasurer-Tax Collector (the "County Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County Treasury. The County invests moneys of school and community colleges over which it has jurisdiction in its Educational Investment Pool (the "Educational Pool").

The composition and value of investments under management in the Educational Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally. For a further discussion of the Educational Pool, see the caption "THE ORANGE COUNTY EDUCATIONAL INVESTMENT POOL" herein.

The net proceeds from the sale of the Series A Bonds (other than premium) shall be paid to the County to the credit of the Santa Ana Unified School District Building Fund (the "Building Fund") established pursuant to the Series A Resolution and shall be disbursed for the payment of the costs of acquiring and constructing the Projects (as described below). Any premium or accrued interest received by the District from the sale of the Series A Bonds will be deposited in the Debt Service Fund. Earnings on the investment of moneys in either the Building Fund or the Debt Service Fund will be retained in the respective fund and used only for the purposes to which the respective fund may lawfully be applied. Moneys in the Debt Service Fund may only be applied to make payments of principal of and interest, and premium, if any, on bonds of the District. All funds held in the Building Fund and the Debt Service Fund will be invested by the County Treasurer at the direction of the District.

DEBT SERVICE SCHEDULE

The following table summarizes the annual principal and interest payments on the Bonds, assuming no optional redemption.

ANNUAL DEBT SERVICE ON THE BONDS

	Series A Bonds		**Refunding Bonds**		
Bond Year Ending August 1	Principal	Interest	Principal	Interest	Total Debt Service
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					
2048					
Total					

The table on the following page shows the annual debt service payments on all of the District's outstanding general obligation bonds, comprising the 2010 General Obligation Refunding Bonds (the "2010 Refunding Bonds"), the 2012 General Obligation Refunding Bonds (the "2012 Refunding Bonds"), the General Obligation Bonds, Election of 1999, Series 2002B (the "2002B Bonds" and, together with the 2010 Refunding Bonds and the 2012 Refunding Bonds, the "1999 Authorization Bonds"), the 2008 General Obligation Bonds Series A (the "Series A Bonds"), the 2009 General Obligation Refunding Bonds (the "2009 Refunding Bonds"), the Election of 2008 General Obligation Bonds, Series B (the "Series B Bonds"), the Election of 2008 General Obligation Bonds, Series C (Qualified School Construction Bonds) (the "Series C Bonds"), the Election of 2008 General Obligation Bonds, Series D (the "Series D Bonds"), the Election of 2008 General Obligation Bonds, Series E (Federally Taxable Direct-Pay - Build America Bonds) (the "Series E Bonds"), the Election of 2008 General Obligation Bonds, Series F (Federally Taxable Direct-Pay – Qualified School Construction Bonds) (the "Series F Bonds") and the 2018 General Obligation Refunding Bonds (the "2018 Refunding Bonds" and, together with the Series A Bonds, the Series B Bonds, the Series C Bonds, the Series D Bonds and the Series E Bonds, the "2008 Authorization Bonds") and the Bonds. The 2009 Refunding Bonds are expected to be refunded in part by the Refunding Bonds described herein. See "PLAN OF FINANCE- The Refunding."

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DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS

Period Ending August 1	1999 Authorization Bonds[1]	2008 Authorization Bonds[2]	The Bonds	Total Debt Service
2019	$9,516,275.00	$12,213,276.50		
2020	9,520,375.00	12,692,888.50		
2021	9,513,575.00	12,823,409.50		
2022	9,522,110.00	13,355,086.50		
2023	9,232,322.50	13,932,766.50		
2024	9,233,197.50	14,524,196.50		
2025	9,231,047.50	14,188,367.50		
2026	9,229,922.50	14,736,829.50		
2027	9,231,535.00	14,933,751.50		
2028	9,233,975.00	15,507,282.50		
2029	9,227,387.50	15,900,726.24		
2030	9,558,137.50	15,561,745.53		
2031	9,553,987.50	15,044,763.88		
2032	9,553,050.00	15,565,520.22		
2033	--	16,181,920.00		
2034	--	18,631,230.00		
2035	--	20,138,100.00		
2036	--	20,956,125.00		
2037	--	21,805,630.00		
2038	--	22,695,550.00		
2039	--	23,626,528.71		
2040	--	24,592,796.23		
2041	--	25,597,270.02		
2042	--	24,219,873.32		
2043	--	25,249,933.69		
2044	--	26,322,877.58		
2045	--	27,436,839.60		
2046	--	28,495,876.50		
2047	--	28,500,000.00		
Total	$131,356,897.50	$555,431,161.52		

(1) Includes the 2009 Refunding Bonds which are expected to be refunded in part by the Refunding Bonds described herein. See "PLAN OF FINANCE – The Refunding."
(2) Sinking fund payment dates are September 15 for the Series C Bonds.

SECURITY FOR THE BONDS

General

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal of and interest on the Bonds. See "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

The District received authorization to issue $232,000,000 principal amount of general obligation bonds pursuant to an election of the qualified electors within the District on November 6, 2018. Subsequent to the issuance of the Series A Bonds, $172,000,000[*] aggregate principal amount of general obligation bonds will remain for issuance under the Authorization. The District is authorized to issue refunding bonds to refund its outstanding general obligation bonds (including general obligation refunding bonds) under the Government Code (commencing with section 53550 thereof).

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 and tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer and tax collector, as *ex officio* treasurer of each school district located in the county, holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due.

Restrictions on use of *Ad Valorem* Taxes and Statutory Lien on Debt Service

Under State law, school districts may levy *ad valorem* taxes (in addition to their share of the 1% county tax to pay operating expenses) only to pay principal of and interest on general obligation bonds that, like the Bonds, are approved at an election to finance specified projects or are bonds issued to refund such general obligation bonds. Moreover, State law provides that the *ad valorem* taxes may be levied to pay the principal of and interest on bonds and for no other purpose. Consequently, under State law, the District is not authorized to divert revenue from *ad valorem* taxes levied to pay the Bonds to a purpose other than payment of the Bonds.

Pursuant to Section 53515 of the State Government Code, effective for any bonds issued on or after January 1, 2016, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the

[*] Preliminary; subject to change.

Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

Under the Resolutions, the District has pledged, as security for the Bonds and the interest thereon, the proceeds from the levy of the *ad valorem* tax which the County levies and receives and all interest earnings thereon (the "Pledged Moneys"). The Pledged Moneys shall be used to pay the principal of, premium, if any, and interest on the Bonds when and as the same shall become due and payable.

The Bonds are the general obligations of the District, payable solely from Pledged Moneys and do not constitute an obligation of the County except as provided in the Resolutions. No part of any fund or account of the County is pledged or obligated to the payment of the Bonds or the interest thereon. Other than the Pledged Moneys, no funds or accounts of the District are pledged to payment of the Bonds.

PLAN OF FINANCE

The Projects

The District will apply the net proceeds of the Series A Bonds to finance the acquisition, construction, furnishing and equipping of District facilities in accordance with the bond proposition approved at the Election which includes the ballot measure and a project list. The District intends to apply the net proceeds of the Series A Bonds to finance the replacement of certain outdated portable classrooms with new permanent modular classrooms, among other improvements permitted under the ballot measure and project list.

The "Smaller Classes, Safer Schools, and Financial Accountability Act," a Constitutional amendment known as Proposition 39, controls the method by which the District will expend Series A Bond proceeds on its capital improvements. Prior to the Election, the District prepared and submitted to the Board for approval a master list of capital improvement projects to be built, acquired, constructed or installed with the proceeds of the Series A Bonds, which was then submitted to the voters at the Election (the "Project List"). The District will prioritize and may not undertake to complete all components of the Project List.

The Refunding

The District intends to apply the net proceeds of the sale of the Refunding Bonds to (i) refund the 2009 Refunding Bonds maturing on August 1, 2020 through August 1, 2029 (the "Refunded 2009 Bonds"), inclusive, and (ii) pay the costs of issuance of the Refunding Bonds.

Upon the issuance of the Refunding Bonds, the District will deposit the net proceeds of the Refunding Bonds into an Escrow Fund (the "Escrow Fund") established pursuant to the Escrow and Deposit Agreement, by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent") thereunder, in order to redeem the Refunded 2009 Bonds on August 1, 2019, at a redemption price of the par amount of the Refunded 2009 Bonds plus accrued interest.

The sufficiency of amounts deposited into the Escrow Fund, together with investment earnings thereon, to effect the redemption of the Refunded 2009 Bonds will be verified by Causey Demgen & Moore P.C., certified public accountants (the "Verification Agent"). See the caption "ESCROW VERIFICATION" herein.

As a result of the deposit and application of funds so provided in the Escrow Agreement, and assuming the accuracy of the Underwriter's and the Verification Agent's computations, the Refunded 2009 Bonds will be defeased and the obligation of the County to levy *ad valorem* taxes for payment of the Refunded 2009 Bonds will also be defeased. Amounts deposited into the Escrow Fund are not available to pay debt service on the Bonds.

TAX BASE FOR REPAYMENT OF THE BONDS

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

Ad Valorem **Property Taxation**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll as of July 31 become delinquent, if unpaid, on August 31 and are subject to a 10% delinquency penalty. Unsecured property taxes remaining unpaid on October 31 are also subject to an additional penalty of one and one half percent per month on the first day of each month thereafter. The additional penalties shall continue to attach until the time of payment or until the time a court judgment is entered for the amount of unpaid taxes and penalties, whichever occurs first.

The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the respective County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES" herein.

The State Constitution currently requires a credit of $7,000 of the taxable value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies. Current law also provides, upon application, a basis exemption of $100,000 increased by inflation for veterans with specified disabilities or for unmarried spouses of deceased veterans. The exemption may be raised to $150,000 if the applicant meets the income limit of $40,000.

In addition, certain classes of property such as cemeteries, free public libraries and museums, public schools, churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

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The following tables presents the historical assessed valuation in the District since fiscal year 2008-09. The District's total assessed valuation is $33,140,635,319 for fiscal year 2018-19.

SANTA ANA UNIFIED SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2008-09 Through 2018-19

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2008-09	$24,396,904,033	$6,921,986	$3,447,524,359	$27,851,350,378	n/a
2009-10	23,108,835,810	6,779,053	3,267,407,717	26,383,022,580	(5.28)%
2010-11	21,959,757,156	6,941,096	3,080,634,360	25,047,332,612	(5.06)
2011-12	21,520,198,665	6,941,096	2,956,443,567	24,483,583,328	(2.25)
2012-13	21,975,110,192	3,385,790	2,908,745,101	24,887,241,083	1.65
2013-14	22,777,681,761	3,335,790	2,803,581,435	25,584,598,986	2.80
2014-15	23,828,940,502	3,335,790	2,993,634,016	26,825,910,308	4.85
2015-16	25,350,081,030	3,335,790	2,736,005,540	28,089,422,360	4.71
2016-17	26,600,733,580	3,236,838	2,807,769,653	29,411,740,071	4.71
2017-18	28,312,126,760	3,236,838	2,842,827,193	31,158,190,791	5.94
2018-19	30,319,470,938	4,283,140	2,816,881,241	33,140,635,319	6.36

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rate levied by the County to pay the debt service with respect to the Bonds. See "SECURITY FOR THE BONDS."

Appeals of Assessed Valuations

Pursuant to California Proposition 8 of November 1978 ("Proposition 8"), property owners may apply for a reduction of their property tax assessment by filing a written application, in a form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. County assessors may independently reduce assessed values as well based upon the factors described in the paragraph above or reductions in the fair market value of the taxable property. In most cases, an appeal is filed because the applicant believes that present market conditions (such as lower residential home sale prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIIIA. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Article XIIIA of the California Constitution."

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

County assessors, at their discretion, may also, from time to time, review certain property types purchased between specific time periods (e.g., all single family homes and condominiums purchased shortly prior to widespread declines in the fair market value of residential real estate within the county, as occurred between 2009 and 2011) and may proactively, temporarily reduce the assessed value of qualifying properties to Proposition 8 assessed values without owner appeal therefor.

A property that has been reassessed under Proposition 8, whether pursuant to owner appeal or due to county assessor review, is subsequently reviewed annually to determine its lien date value. Assuming no change in ownership or new construction, and if and as market conditions improve, the assessed value of a property with a Proposition 8 assessed value in place may increase as of each property tax lien date by more than the standard annual inflationary factor growth rate allowed under Article XIIIA (currently, a 2% annual maximum) until such assessed value again equals the Article XIIIA base year value for such property as adjusted for inflation and years of ownership, at which point such property is again taxed pursuant to Article XIIIA and base year values may not be increased by more than the standard Article XIIIA annual inflationary factor growth rate. A change in ownership while a property is subject to a Proposition 8 reassessment assessed valuation will cause such assessed valuation to become fixed as a new Article XIIIA base year value for such property. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES – Article XIIIA of the California Constitution" herein.

No assurance can be given that property tax appeals and reassessments in the future will not significantly reduce the assessed valuation of property within the District.

Assessed Valuation by Jurisdiction

The table below sets forth the assessed valuation within the District by political jurisdiction.

SANTA ANA UNIFIED SCHOOL DISTRICT
2018-19 Assessed Valuation by Jurisdiction

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Costa Mesa	$ 1,074,164,102	3.24%	$19,953,537,995	5.38%
City of Irvine	9,186,520,154	27.72	78,439,755,961	11.71
City of Newport Beach	2,150,520,017	6.49	57,701,161,781	3.73
City of Santa Ana	20,015,845,563	60.40	26,520,241,206	75.47
City of Tustin	102,768,745	0.31	13,043,122,290	0.79
Unincorporated Orange County	610,816,738	1.84	30,385,043,725	2.01
Total District	$33,140,635,319	100.00%		
Orange County	$33,140,635,319	100.00%	$591,987,855,656	5.60%

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use

The table below sets forth the assessed valuation of the taxable property within the District by land use.

SANTA ANA UNIFIED SCHOOL DISTRICT
2018-19 Assessed Valuation and Parcels by Land Use

Non-Residential:	2018-19 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Commercial/Office	$ 9,626,589,106	31.75%	4,595	8.87%
Vacant Commercial	331,567,507	1.09	333	0.64
Industrial	5,539,667,783	18.27	1,869	3.61
Vacant Industrial	176,088,964	0.58	274	0.53
Government/Social/Institutional	40,310,048	0.13	945	1.82
Vacant Other	77,364,837	0.26	313	0.60
Subtotal Non-Residential	$15,791,588,245	52.08%	8,329	16.08%
Residential:				
Single Family Residence	$11,196,116,182	36.93%	34,282	66.18%
Condominium	981,731,939	3.24	5,701	11.00
Mobile Home Related	60,251,473	0.20	118	0.23
Multi-Family Residential	1,768,762,900	5.83	2,597	5.01
Vacant Residential	521,020,199	1.72	778	1.50
Subtotal Residential	$14,527,882,693	47.92%	43,476	83.92%
Total	$30,319,470,938	100.00%	51,805	100.00%

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

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Assessed Valuation of Single Family Homes

The following table sets forth ranges of assessed valuations of single family homes in the District for fiscal year 2018-19, including the median and average assessed value per single family parcel.

SANTA ANA UNIFIED SCHOOL DISTRICT
Per Parcel 2018-19 Assessed Valuation of Single Family Homes

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	34,282	$11,196,116,182	$326,589	$274,848

2018-19 Assessed Valuation	No. of Parcels[1]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $49,999	679	1.981%	1.981%	$ 27,678,546	0.247%	0.247%
$50,000 - $99,999	2,882	8.407	10.387	205,193,257	1.833	2.080
$100,000 - $149,999	2,824	8.238	18.625	360,056,138	3.216	5.296
$150,000 - $199,999	3,240	9.451	28.06	569,704,478	5.088	10.384
$200,000 - $249,999	4,324	12.613	40.689	977,829,892	8.734	19.118
$250,000 - $299,999	4,159	12.132	52.821	1,142,200,573	10.202	29.320
$300,000 - $349,999	3,431	10.008	62.829	1,109,783,037	9.912	39.232
$350,000 - $399,999	2,871	8.375	71.204	1,074,711,247	9.599	48.831
$400,000 - $449,999	2,404	7.012	78.216	1,018,695,847	9.099	57.929
$450,000 - $499,999	2,036	5.939	84.155	964,276,232	8.613	66.542
$500,000 - $549,999	1,425	4.157	88.312	745,905,847	6.662	73.204
$550,000 - $599,999	1,072	3.127	91.439	615,297,091	5.496	78.700
$600,000 - $649,999	798	2.328	93.766	498,651,546	4.454	83.154
$650,000 - $699,999	648	1.890	95.657	436,937,922	3.903	87.056
$700,000 - $749,999	383	1.117	96.774	276,685,680	2.471	89.528
$750,000 - $799,999	232	0.677	97.451	178,947,263	1.598	91.126
$800,000 - $849,999	167	0.487	97.938	137,676,949	1.230	92.356
$850,000 - $899,999	98	0.286	98.224	85,621,968	0.765	93.120
$900,000 - $949,999	73	0.213	98.436	67,419,634	0.602	93.722
$950,000 - $999,999	60	0.175	98.612	58,352,365	0.521	94.244
$1,000,000 and greater	476	1.388	100.000	644,490,670	5.756	100.000
Total	34,282	100.000%		$11,196,116,182	100.000%	

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

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Largest Taxpayers

The table below sets forth the largest local secured taxpayers within the District in fiscal year 2018-19.

SANTA ANA UNIFIED SCHOOL DISTRICT
2018-19 Largest Total Secured Taxpayers

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total[1]
1.	Allergan Pharmaceuticals	Industrial	$ 346,055,444	1.14%
2.	Irvine Office Towers 1 LLC	Commercial	332,582,494	1.10
3.	Edwards Lifesciences LLC	Industrial	316,077,251	1.04
4.	Irvine Apartment Communities LP	Apartments	307,229,637	1.01
5.	Hancock S-REIT Irvine Corp.	Commercial	287,150,398	0.95
6.	Mainplace Shoppingtown LLC	Commercial	286,542,479	0.95
7.	The Irvine Company	Commercial	267,636,345	0.88
8.	Jacaranda Holdings LLC	Commercial	265,200,000	0.87
9.	Lakeshore Properties LLC	Commercial	217,302,793	0.72
10.	Boardwalk Office Associates LLC	Commercial	181,883,184	0.60
11.	Newport Gateway Office LLC	Commercial	180,873,429	0.60
12.	HG Newport Owner LLC	Commercial	176,500,000	0.58
13.	Astoria Central Park West	Residential	157,834,260	0.52
14.	RP/Essex Skyline Holdings LLC	Apartments	141,563,922	0.47
15.	BRE/OC Griffin LLC	Commercial	138,904,328	0.46
16.	First American Title Insurance Co.	Commercial	133,548,850	0.44
17.	SPUS7 Irvine Hotel Owner LP	Commercial	124,229,235	0.41
18.	WJ Newport LLC	Commercial	123,984,379	0.41
19.	SPUS8 2600 Michelson LP	Commercial	120,000,000	0.40
20.	Third Ave. Investment LLC	Commercial	118,139,568	0.39
			$4,223,237,996	13.93%

[1] 2018-19 local secured assessed valuation: $30,319,470,938.
Source: California Municipal Statistics, Inc.

The top 20 taxpayers on the secured roll for 2018-19 account for 13.93% of the secured assessed value in the District which is $30,319,470,938. According to California Municipal Statistics, Inc., the largest secured taxpayer in the District for 2018-19 was Allergan Pharmaceuticals, accounting for 1.14% of the total secured assessed value in the District. No other secured taxpayer accounted for more than 1.10% of the total secured assessed value in the District. 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.

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Tax Rates

The following table sets forth tax rates levied in Tax Rate Area 11-003 within the District for fiscal years 2014-15 through 2018-19:

SANTA ANA UNIFIED SCHOOL DISTRICT
Typical Tax Rate per $100 Assessed Valuation (TRA 11-003)[(1)]

	2014-15	2015-16	2016-17	2017-18	2018-19
General	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Santa Ana Unified School District	.06869	.06604	.06377	.06327	.05561
Rancho Santiago Community College District	.02878	.03063	.02999	.03013	.02875
Rancho Santiago Community College District SFID No. 1	.02200	.01976	.01946	.02075	.01662
Metropolitan Water District	.00350	.00350	.00350	.00350	.00350
Total	$1.12297	$1.11993	$1.11672	$1.11765	$1.10448

(1) 2018-19 assessed valuation of TRA 11-003 is $6,551,347,119 which is 19.77% of the District's total assessed valuation.
Source: California Municipal Statistics, Inc.

The Teeter Plan

The Board of Supervisors of the County in 1993 approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan for the County, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan for the County is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County Treasury is the legal depository of tax collections.

Under the Teeter Plan, the District will receive 100% of its *ad valorem* property tax levied with respect to the Bonds irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County orders discontinuance of its Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the District exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the District. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

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

Tax Levies and Delinquencies

The table below summarizes the annual secured tax levy and delinquencies within the District as of June 30 for fiscal years 2013-14 through 2017-18. The County has adopted the Teeter Plan. As a result, the District's receipt of property taxes is not subject to delinquencies so long as the Teeter Plan remains in effect.

SANTA ANA UNIFIED SCHOOL DISTRICT
Secured Tax Charges

	Secured Tax Charge[1]	Amt. Del. June 30[2]	% Del. June 30
2013-14	$78,026,828.96	$581,564.60	0.75%
2014-15	81,584,927.57	566,193.35	0.69
2015-16	86,048,650.42	590,538.02	0.69
2016-17	90,338,944.96	636,301.45	0.70
2017-18	95,459,324.95	511,766.50	0.54

(1) Represents 1% General Fund apportionment. Excludes secured supplemental property.
(2) Orange County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Debt

Numerous local agencies that provide public services overlap the District's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the District's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The District has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

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The following table is a statement of the District's direct and estimated overlapping bonded debt as of December 1, 2018:

SANTA ANA UNIFIED SCHOOL DISTRICT
Direct and Overlapping Bonded Indebtedness

2018-19 Assessed Valuation: $33,140,635,319

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 12/1/18
Metropolitan Water District	1.136%	$ 688,182
Irvine Ranch Water District Improvement District 113/213	4.332	1,643,744
Rancho Santiago Community College District	42.773	100,111,062
Rancho Santiago Community College District School Facilities Improvement District No. 1	80.953	93,411,667
Santa Ana Unified School District	**100.000**	**236,944,757**[1]
Santa Ana Unified School District Community Facilities District No. 2004-1	100.000	7,110,000
City of Irvine Community Facilities District No. 2004-1	100.000	17,610,000
City of Santa Ana 1915 Act Bonds	100.000	1,460,000
City of Irvine Assessment District No. 12-1	0.665	466,132
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$459,445,544
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	5.598%	$ 11,752,721
Orange County Pension Obligation Bonds	5.598	21,316,750
Orange County Board of Education Certificates of Participation	5.598	783,160
Santa Ana Unified School District Certificates of Participation	**100.000**	**67,348,106**
City of Costa Mesa General Fund Obligations	5.383	2,331,377
City of Newport Beach Certificates of Participation	3.727	3,879,807
City of Santa Ana General Fund Obligations	75.474	34,333,123
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$141,745,044
OVERLAPPING TAX INCREMENT DEBT:		
Successor Agency to Orange County Redevelopment Agency	34.661%	$ 4,112,528
Successor Agency to Santa Ana Redevelopment Agency Project Areas	81.804	59,152,472
Successor Agency to Tustin Redevelopment Agency Project Areas	2.826	1,471,922
TOTAL OVERLAPPING TAX INCREMENT DEBT		$64,736,922
COMBINED TOTAL DEBT		$665,927,510[2]

Ratios to 2017-18 Assessed Valuation:
Direct Debt ($236,944,757) 0.71%
Total Direct and Overlapping Tax and Assessment Debt 1.39%
Combined Direct Debt ($304,292,863)...0.92%
Combined Total Debt...2.01%

Ratios to Redevelopment Incremental Valuation ($6,257,874,313):
Total Overlapping Tax Increment Debt 1.03%

____
(1) Excludes the Bonds to be sold, but includes the Refunded 2009 Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.
Source: California Municipal Statistics Inc.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the District's finances 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 and interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County on all taxable property within the District in an amount sufficient for the timely payment of principal and interest on the Bonds. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

State Funding of Education

On June 27, 2013, the State adopted a new method for funding school districts commonly known as the "Local Control Funding Formula." The Local Control Funding Formula ("LCFF") is being implemented in stages, beginning in fiscal year 2013-14 and will be fully implemented in fiscal year 2018-19. Prior to adoption of the LCFF, the State used a revenue limit system described below.

Local Control Funding Formula. State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), enacted as a part of the 2013-14 State Budget (defined below) enacted the LCFF beginning in fiscal year 2013-14, which replaced the revenue limit funding system and many categorical programs. See "-Revenue Limit Funding System" below. The LCFF distributes resources to schools through a guaranteed base revenue limit funding grant (the "Base Grant") per unit of ADA. The average Base Grant is $7,643 per unit of ADA, which is $2,375 more than the average revenue limit. Additional supplemental funding is made available based on the proportion of English language learners, low-income students and foster youth. The LCFF replaces the existing revenue limit funding system and many categorical programs. The District expects revenues to increase as a result of the implementation of the LCFF

The primary component of AB 97, as amended by SB 91, is the implementation of the LCFF, which replaces the revenue limit funding system for determining State apportionments, as well as the majority of State categorical program funding. State allocations will be provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment is required to be calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

For fiscal year 2018-19, the base rates per unit of A.D.A. for each grade span are as follows: (i) $8,235 for grades K-3; (ii) $7,571 for grades 4-6; (iii) $7,796 for grades 7-8; and (iv) $9,269 for grades 9-12. Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants have been adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of cost-of-living-adjustments will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

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

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

The following table sets forth the historical ADA (at P-2) and enrollment (CBEDS Actual) for fiscal years 2009-10 through 2017-18.

SANTA ANA UNIFIED SCHOOL DISTRICT
Historical ADA and Enrollment
Fiscal Years 2009-10 through 2017-18

Fiscal Year	ADA	Enrollment
2009-10	51,936	56,397
2010-11	51,604	57,319
2011-12	51,608	57,250
2012-13	51,577	57,410
2013-14	51,595	57,499
2014-15	50,941	56,815
2015-16	49,886	51,383
2016-17	48,383	49,791
2017-18	46,855	48,326

Source: The District.

The following table sets forth the ADA, enrollment, the percentage of EL/LI ("Unduplicated Count") enrollment, and the percentage of FRPM enrollment for fiscal years 2015-16, 2016-17 and 2017-18, budgeted for the current year and projections for fiscal years 2019-20 and 2020-21.

SANTA ANA UNIFIED SCHOOL DISTRICT
ADA, English Language/Low Income Enrollment
Fiscal Years 2015-16 through 2020-21

	ADA					Enrollment		
Fiscal Year	K-3	4-6	7-8	9-12	Total ADA	Total Enrollment	% of Unduplicated Count	% of FRPM Enrollment
2015-16	16,266	12,082	7,512	14,097	49,957	51,383	95.85%	92.70%
2016-17	15,312	11,761	7,383	14,051	48,507	49,792	93.75	89.97
2017-18	14,144	11,335	7,299	13,745	46,523	48,326	87.59	82.74
2018-19[1]	13,347	10,567	7,288	13,647	44,848	46,596	87.05	83.05
2019-20[2]	12,669	9,902	7,059	13,599	43,228	44,924	87.00	83.00
2020-21[2]	12,243	9,118	6,682	13,642	41,685	43,335	87.00	83.00

[1] Based on P-1 data.
[2] Projected.
Source: The District.

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

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

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

Accountability. The State Board of Education has promulgated regulations regarding the expenditure of supplemental and concentration funding, including a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such district on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school district can use supplemental or concentration funding on a school-wide or district-wide basis.

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

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

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

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

Revenue Limit Funding System. Prior to the implementation of the LCFF, annual State apportionments of basic and equalization aid to school districts for general purposes were computed up to a revenue limit (described below) per unit of ADA. Generally, such apportionments amounted to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (i.e., unified, high school or elementary). State law also provided for State support of specific school related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

Revenue Sources

The District categorizes its general fund revenues into four sources:

SANTA ANA UNIFIED SCHOOL DISTRICT
Percentage of Revenue by Source

Revenue Source	2015-16	2016-17	2017-18	2018-19[1]
LCFF sources	74.2%	77.1%	77.8%	76.3%
Federal revenues	7.5	7.3	7.6	7.8
Other State revenues	15.9	13.8	13.5	13.7
Other local revenues	2.5	1.9	1.1	2.2

(1) Based on second interim financial results.
Source: The District.

Each of these revenue sources is briefly described below. For more information regarding the LCFF, see "-State Funding of Education" above.

LCFF Sources. State funding under the LCFF consists of Base Grants and supplemental grants as described above. See "- State Funding of Education – Local Control Funding Formula" above.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Every Child Succeeds.

Other State Revenues. The District receives some other State revenues. These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, School Improvement Program, instructional materials, and various block grants.

The District receives State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional material.

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

Developer Fees

The District receives developer fees per square foot pursuant to Education Code Section 17620 which must be used to fund construction or reconstruction of school facilities. Current developer fees are $3.48 per square foot for residential housing and $0.56 per square foot for commercial or industrial development. The following table sets forth developer fee collections by the District for the last five fiscal years and the projected developer fee collections for the current fiscal year.

SANTA ANA UNIFIED SCHOOL DISTRICT
Developer Fee Collections

Fiscal Year	Developer Fees Collected
2013-14	$ 283,175.14
2014-15	259,456.93
2015-16	3,341,471.30
2016-17	2,272,103.16
2017-18	4,176,652.36
2018-19[1]	9,397,235.61

[1] Projected, from 2018-19 Second Interim Report.
Source: The District.

Budget Procedures

State Budgeting Requirements. The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. In 2014, Assembly Bill 2585 was enacted, which repealed provisions authorizing schools districts to use a dual budget adoption cycle. Instead, all school districts must be on a single budget cycle. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The District is on a single budget cycle and adopts its budget on or before July 1.

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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

The District has filed positive certifications for each reporting period in the last five years.

General Fund Budget. The District's general fund adopted budgets for fiscal years 2014-15 through 2018-19, audited actuals for the fiscal years 2014-15 through 2017-18 and projected financial results for fiscal year 2018-19 based upon the second interim report are set forth on the following page.

[Remainder of page intentionally left blank]

SANTA ANA UNIFIED SCHOOL DISTRICT
GENERAL FUND BUDGETING

	Adopted Budget 2014-15[1]	Audited Actuals 2014-15[1]	Adopted Budget 2015-16[1]	Audited Actuals 2015-16[1]	Adopted Budget 2016-17[1]	Audited Actuals 2016-17[1]	Adopted Budget 2017-18[1]	Audited Actuals 2017-18[1]	Adopted Budget 2018-19[2]	Second Interim Report 2018-19[2]
REVENUES										
LCFF Sources	$412,966,218	$415,938,621	$489,881,277	$489,808,998	$514,365,662	$514,118,944	$516,182,413	$510,195,822	$521,445,182	$521,445,182
Federal	37,913,877	41,949,463	43,165,152	49,331,463	43,962,920	48,653,269	43,047,097	49,351,981	51,806,809	53,093,498
Other State	58,431,716	77,582,625	54,224,631	104,728,530	77,624,666	91,959,911	81,750,394	88,691,445	95,629,343	93,506,511
Other Local	8,535,571	16,471,758	15,281,734	16,265,250	7,731,934	12,388,475	4,302,224	7,416,775	14,171,058	14,942,962
Total Revenues	$517,847,382	$551,942,467	$602,552,794	$660,134,241	$643,685,182	$667,120,599	$645,282,128	$655,656,023	$683,052,392	$682,988,153
EXPENDITURES										
Current										
Certificated Salaries	262,206,169	251,123,907	263,673,921	274,572,980	273,347,086	280,427,465	267,550,033	275,945,554	283,001,021	278,906,765
Classified Salaries	73,357,493	76,749,909	88,583,235	88,714,524	96,377,664	90,926,861	92,234,265	92,440,010	100,672,040	99,300,061
Employee Benefits	107,741,189	116,909,924	116,985,990	135,432,950	149,037,145	155,262,516	155,875,160	196,702,250	176,315,869	171,356,631
Books and Supplies	18,752,227	27,167,361	26,714,543	30,389,401	34,704,400	29,642,164	44,393,827	38,618,935	35,462,095	37,776,061
Services, Other Operating Expenses	54,174,347	53,384,998	72,286,689	68,589,470	67,064,905	61,858,510	59,743,351	58,355,806	76,406,515	78,705,751
Other Outgo	3,658,411	3,816,577	3,479,205	2,765,931	3,322,001	2,941,402	2,531,193	2,047,955	3,487,945	3,478,283
Capital outlay	3,820,128	7,910,980	3,761,898	4,027,084	4,956,827	5,587,379	6,712,113	4,815,500	10,347,020	9,930,677
Debt service- principal	--	251,524	--	251,524	251,524	251,524	--	251,524	--	--
Debt service - interest	--	13,739	--	5,639	--	5,613	--	5,613	--	--
Total Expenditures	$523,709,964	$537,328,919	$575,485,481	$604,749,503	$629,061,552	$626,903,434	$629,039,942	$669,183,147	$685,692,506	$679,454,230
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(5,862,582)	14,613,548	27,067,313	55,384,738	17,623,630	40,217,165	16,242,185	(13,527,124)	(2,640,114)	3,533,923
OTHER FINANCING SOURCES (USES)										
Transfers in	--	1,313,312	--	--	--	--	--	--	--	238
Transfers out	(4,739,935)	(5,069,890)	(7,647,235)	(7,977,961)	(6,828,416)	(15,513,655)	(11,027,665)	(5,645,329)	(5,108,468)	(5,101,923)
Total Other Financing Sources (Uses)	(4,739,935)	(3,756,578)	(7,647,235)	(7,977,961)	(6,828,416)	(15,513,655)	(11,027,665)	(5,645,329)	(5,108,468)	(5,101,695)
NET CHANGE IN FUND BALANCES	(10,602,517)	10,856,970	19,420,078	47,406,777	10,795,214	24,703,510	5,214,520	(19,172,453)	(7,748,582)	(1,567,773)
Fund Balance, July 1	42,463,674	42,463,674	53,320,644	53,320,644	100,727,421	100,727,421	90,327,282	125,430,931	105,947,581	105,947,581
Fund Balance, June 30	$31,861,157	$53,320,644	$72,740,722	$100,727,421	$111,522,635	$125,430,931[3]	$95,541,802	$106,258,478	$98,198,998	$104,379,808

[1] From the audited financial statement of the District for such fiscal year.
[2] From 2018-19 Second Interim Report.
Source: The District.

Comparative Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2018, and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 1601 East Chestnut Avenue, Santa Ana, California 92701. See APPENDIX B hereto for the 2017-18 Audited Financial Statements of the District.

The table on the following page reflects the District's audited general fund revenues, expenditures and fund balances from fiscal year 2013-14 to fiscal year 2017-18.

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SANTA ANA UNIFIED SCHOOL DISTRICT
GENERAL FUND
Statement of Revenues, Expenditures and Change in Fund Balances for Fiscal Years 2013-14 through 2017-18

	2013-14 Audit	2014-15 Audit	2015-16 Audit	2016-17 Audit	2017-18 Audit
REVENUES					
Revenue Limit/LCFF Sources	$353,361,762	$415,938,621	$489,808,998	$514,118,944	$510,195,822
Federal Revenues	44,305,195	41,949,463	49,331,463	48,653,269	49,351,981
Other State Revenues	82,952,087	77,582,625	104,728,530	91,959,911	88,691,445
Other Local Revenues	9,793,407	16,471,758	16,265,250	12,388,475	7,416,775
Total Revenues	490,412,451	551,942,467	660,134,241	667,120,599	655,656,023
EXPENDITURES					
Current					
Instruction	314,024,938	347,934,786	384,608,091	398,546,112	413,960,619
Instruction related activities:					
Supervision of instruction	26,191,185	23,090,999	25,595,806	30,198,489	26,551,222
Instructional library, media and technology	3,738,413	3,712,430	4,109,270	4,392,830	4,314,940
School site administration	33,092,679	34,781,876	37,836,760	39,232,491	40,091,212
Pupil services:					
Home-to-school transportation	10,536,239	10,101,955	10,695,191	12,586,233	12,359,877
Food services	234,409	453,600	1,154,650	1,230,230	1,416,178
All other pupil services	22,790,308	24,918,745	29,010,966	31,327,504	33,920,396
Administration:					
Data processing	4,795,804	5,358,513	6,059,776	6,618,015	5,933,259
All other administration	18,990,435	23,447,924	39,963,950	36,301,364	62,932,376
Plant services	48,549,127	49,394,731	52,026,605	50,330,569	53,281,618
Facility acquisition and construction	676,980	4,931,678	3,237,174	3,993,861	7,275,113
Ancillary services	4,336,065	4,444,622	5,323,820	6,519,481	152,507
Community services	93,727	106,053	139,454	135,806	5,067,718
Other outgo	4,826,348	4,385,744	4,727,577	5,225,796	24,941
Enterprise services	--	--	3,250	7,516	1,707,034
Debt Service					
Principal	--	251,524	251,524	251,524	251,524
Interest and other	265,588	13,739	5,639	5,613	5,613
Total Expenditures	493,142,245	537,328,919	604,749,503	626,903,434	669,183,147
Excess (Deficiency) of Revenues Over Expenditures	(2,729,794)	14,613,548	55,384,738	40,217,165	(13,527,124)
OTHER FINANCING SOURCES (USES):					
Transfers In	--	--	--	--	--
Other sources – proceeds from facilities program loan	--	1,313,312	(7,977,961)	--	--
Transfers Out	(4,238,912)	(5,069,890)	--	(15,513,655)	(5,645,329)
Net Financing Sources	(4,238,912)	(3,756,578)	(7,977,961)	(15,513,655)	(5,645,329)
NET CHANGE IN FUND BALANCES	(6,968,706)	10,856,970	47,406,777	24,703,510	(19,172,453)
Fund Balances at Beginning of Year	49,432,380	42,463,674	53,320,644	100,727,421	125,430,931
Fund Balances at End of Year	$42,463,674	$53,320,644	$100,727,421	$125,430,931	$106,258,478

Source: The District.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

State Budget Measures

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

2018-19 State Budget. Governor Brown signed the fiscal year 2018-19 budget for the State (the "2018-19 State Budget") on June 27, 2018, forecasting revenues and transfers for 2018-19 of $141.8 billion and expenditures of $138 billion. For 2017-18, the 2018-19 State Budget includes revenues and transfers of $135.5 billion, an increase of almost $10 billion over the 2017-18 State Budget, and expenditures of $127 billion. The 2018-19 State Budget reflects continued economic expansion and increasing revenues, including record all-time capital gains tax revenues. The Rainy Day Fund is fully funded to $13.9 billion and an additional $200 million is deposited to the newly created Safety Net Reserve Fund. In recognition that the current economic prosperity can't continue indefinitely, the 2018-19 State Budget makes one-time spending commitments rather than on-going programmatic expenditures; primarily for infrastructure, homelessness and mental health. A new funding formula for higher education is adopted that provides increased funding for community college districts that serve low-income students and where students demonstrate certain success. Additionally, the California Online College is created in order to facilitate access to higher education for working adults.

With respect to K-12 education, the 2018-19 State Budget includes total funding of $97.2 billion ($56.1 billion State general fund and $41.1 billion from other funds) with per pupil funding from all sources of $16,352. LCFF funding is increased by $3.7 billion to reach full funding. Additionally, the 2018-19 State Budget provides $1.1 billion in one-time discretionary funds to school districts, charter schools and county offices of education. The 2018-19 State Budget also enacts a new Proposition 98 certification process to ensure annual Proposition 98 certifications.

Significant provisions of the 2018-19 State Budget relating to K-12 education are as follows:

- Career Technical Education—$164 million ongoing Proposition 98 funds to establish a K-12 specific program within the Strong Workforce Program and $150 million ongoing Proposition 98 funds to make permanent the Career Technical Education Inventive Grant Program.

- Low-Performing Student Block Grant—$300 million Proposition 98 funds for local education agencies with students performing at the lowest levels on academic assessments and that do not generate supplemental LCFF funds or special education resources.

- Early Education Expansion Program—$167.2 million Proposition 98 funds for inclusive early education and care for children up to the age of five in low-income and low access to care areas.

- Teacher Residency Grant Program—$75 million Proposition 98 funds to support one-year intensive, mentored, clinical teacher preparation programs with $50 million for preparing and retaining special education teachers and $25 million for bilingual and STEM teachers.

- Local Solutions Grant Program—$50 million Proposition 98 funds to provide one-time grants to local educational agencies for locally identified solutions for special education teachers.

- Classified School Employee Summer Assistance Program—$50 million Proposition 98 funds to provide state matching funds to classified school employees who defer paychecks to the summer recess period.

- Classified School Employee Professional Development Block Grant Program—$50 million Proposition 98 funds for professional development for classified staff with a priority on the implementation of school safety plans.

- English Language Proficiency Assessment for California—$27.1 million Proposition 98 funds to convert the paper-based ELPAC to a computer-based assessment and to develop an ELPAC assessment specific to students with exceptional needs.

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

- Kids Code After-School Program—$15 million Proposition 98 funds to increase opportunities for students in after-school programs to access computer coding education.

- Fire-Related Support—$4.4 million Proposition 98 funds in property tax relief to school districts impacted by the fires in Northern and Southern California in 2017, $25 million Proposition 98 funds through the LCFF and a hold-harmless provision for ADA for three years.

- California-Grown Fresh School Meals Grants—$1 million one-time Proposition 98 funds to encourage the purchase of California-grown food by schools and expand the number of freshly prepared school meals offered that use California-grown ingredients.

- Fiscal Crisis and Management Assistance Team—$972,000 Proposition 98 funds to allow FCMAT to coordinate with county offices of education to offer more proactive and preventive services to fiscally distressed school districts, specifically those with a qualified interim budget status.

Proposed 2019-20 State Budget. On January 10, 2019, Governor Gavin Newsom announced his proposed 2019-20 budget for the State (the “2019-20 Proposed State Budget”) with increased revenues and expenditures for 2018-19 over the 2018-19 State Budget. Under the 2019-20 Proposed State Budget, the State will receive revenues and transfers totaling $149.3 billion with expenditures reaching $144 billion in 2018-19. 2019-20 revenues and transfers are predicted to decrease to $147.8 billion with expenses remaining steady at $144 billion. The Proposed 2019-20 State Budget continues prior years’ efforts to pay down debts and increase savings. $1.8 billion would be transferred to the Rainy Day Fund in 2019-20 with an additional $4.1 billion transferred in future years to bring the Rainy Day Fund balance to $19.4 billion by 2022-23. The Proposed 2019-20 State Budget commits $4 billion to pay off loans from special funds and transportation accounts, eliminate the deferrals of the June payroll and the fourth quarter PERS payment. A $3 billion supplemental contribution to pay down the State’s share of unfunded PERS liabilities and $1.1 billion towards its share of STRS liabilities are also included in the 2019-20 Proposed State Budget.

The 2019-20 Proposed State Budget allocates $80.7 billion in Proposition 98 funds for K-12 schools and community colleges as well as $686 million in settle-up payments from prior years. Total per-pupil funding would reach $16,857 in 2018-19 and $17,160 in 2019-20. LCFF funding reaches $63 billion under the 2019-20 Proposed Budget.

In addition, the 2019-20 Proposed State Budget makes a $3 billion one-time general fund payment to STRS to reduce school districts' pension liabilities and decrease required future contributions. Current assumptions provide that the school district contribution rate to STRS would decrease from 18.13% to 17.1% in 2019-20 and from 19.1% to 18.1% in 2020-21 as a result of such one-time payment.

Significant provisions of the 2019-20 Proposed State Budget pertaining to K-12 education are as follows:

- Full Day Kindergarten— $750 million one-time general funds to improve access to full-day kindergarten.

- Full-day Preschool— $125 million to increase access to subsidized full-day, full-year State preschool for low income four-year olds.

- ADA—A decrease of $388 million Proposition 98 funds in 2018-19 for school districts resulting from a decrease in projected ADA from the 2018-19 State Budget, and a decrease of $187 million Proposition 98 general fund in 2019-20 for school districts resulting from a further projected decline in ADA for 2019-20.

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

- COLA—$187 million Proposition 98 funds to support a 3.46% COLA for categorical programs, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.

- CalWORKs Stages 2 and 3 Child Care—A net increase of $119.4 million non-Proposition 98 general fund in 2019-20 to reflect increases in the number of CalWORKs child care cases.

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

- County Offices of Education—$9 million Proposition 98 funds to reflect a 3.46-percent COLA adjustment and average daily attendance changes applicable to the LCFF.

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

Future Actions. The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

The District cannot predict whether the State will encounter budgetary difficulties in the current or future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot control. The Bonds are secured by *ad valorem* taxes levied upon real property within the District.

Recent California Drought Conditions and Wildfires. Water shortfalls resulting from the driest conditions in recorded State history caused Governor Brown, on January 17, 2014, to declare a State-wide Drought State of Emergency for California and directed State officials to take all necessary actions to prepare for water shortages. Following the Governor's declaration, the California State Water Resources Control Board (the "Water Board") issued a statewide notice of water shortages and potential future curtailment of water right diversions. Subsequent executive orders and Water Board regulations imposed reductions on water usage in response to the drought conditions. On April 7, 2017, the Governor announced the end of the State-wide drought in all but Fresno, Kings, Tulare and Tuolumne Counties in California but extended conservation measures indefinitely in order to prepare California for fluctuations in water conditions and potential future drought conditions. According to the U.S. Drought Monitor, as of March, 2019, California is not currently experiencing any drought conditions.

Additionally, in 2017 and 2018, certain portions of the State were affected by large wildfires which destroyed both natural lands and residential and commercial properties and resulted in large-scale property value reductions in the impacted areas. The District was not impacted by the wildfires.

The District cannot make any representation regarding the effects that the drought or fire conditions has had, or may have on the value of taxable property within the District, or to what extent drought or fire could cause disruptions to agricultural production, destroy property, reduce land values and adversely impact other economic activity within the boundaries of the District.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution ("Article XIIIA") limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" as determined by the County assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full cash value is also referred to as the "base year value." The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on outstanding general obligation bonds of the District, including the Bonds. See "TAX BASE FOR REPAYMENT OF THE BONDS – Assessed Valuations" herein.

Article XIIIA requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on 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% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of principal of and interest on the Bonds falls within the exception described in (c) of the immediately preceding sentence. In addition, Article XIIIA requires the approval of two-thirds or more of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIIIA

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

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

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

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

Unitary Property

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

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION – State Funding of Education" herein.

Article XIIIB of the California Constitution

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

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

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

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

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

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

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

Article XIIIB also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "–Proposition 98" and "–Proposition 111" below.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID (respectively, "Article XIIIC" and "Article XIIID"), 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 college 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 one 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.

Proposition 26

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

Proposition 98

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

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

Proposition 111

On June 5, 1990, the voters of California approved the Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the State Constitution to alter the Article

XIIIB spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

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

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

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

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

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

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita

State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendment may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property, and property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate per $100,000 of taxable property value projected to be levied as the result of any single election be no more than $60 (for a unified school district), $30 (for a high school or elementary school district), or $25 (for a community college district), when assessed valuation is projected to increase in accordance with Article XIIIA of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Jarvis v. Connell

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California (the "Controller")). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California

Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A and Proposition 22

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

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately $1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately $1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide. ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12), which, together with ABx1 26, is referred to herein as the "Dissolution Act." The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a "Successor Agency"). All property tax revenues that would have been allocated to such redevelopment agency will be allocated to the Successor Agency, to be used for the payment of pass-through payments to local taxing entities and to any other "enforceable obligations" (as defined in the Dissolution Act), as well to pay certain administrative costs. The Dissolution Act defines "enforceable obligations" to include bonds, loans, legally requirement payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations. Tax revenues in excess of such amounts, if any, will be distributed to local taxing entities in the same proportions as other tax revenues.

The District can make no representations as to the extent to which its revenue limit apportionments may be offset by the future receipt of pass through tax increment revenues, or any other surplus property tax revenues pursuant to the Dissolution Act.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $500,000 but less than $600,001 for joint filers and over $340,000 but less than $408,001 for head-of-household filers), (ii) 2% for taxable income over $300,000 but less than $500,001 for single filers (over $600,000 but less than $1,000,001 for joint filers and over $408,000 but less than $680,001 for head-of-household filers), and (iii) 3% for taxable income over $500,000 for single filers (over $1,000,000 for joint filers and over $680,000 for head-of-household filers).

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

Proposition 55

At the November 8, 2016 general election, the voters in the State approved the Tax Extension of Education and Healthcare Initiative ("Proposition 55") which extends the increase in personal income tax on high-income taxpayers imposed under Proposition 30 until 2030. Proposition 55 did not extend the sales tax increases imposed under Proposition 30 which expired in 2016.

Proposition 51

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) was a voter initiative that was approved by voters in the State on November 8, 2016. Proposition 51 authorizes the sale and issuance of $9 billion in general obligation bonds by the State for the new construction and modernization of K-14 facilities.

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

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

The District makes no representation that it will either pursue or qualify for Proposition 51 State facilities funding.

Proposition 2

Proposition 2, a legislatively referred Constitutional amendment approved by the voters in November, 2014 ("Proposition 2"), changed the way in which the State pays off existing debts, funds its reserves and draws from those reserves in times of economic slowdowns, as well as requires that reserves be set aside for schools and community colleges under certain circumstances. In addition, as a result of the passage of Proposition 2, new rules for school district reserves were implemented.

Under Proposition 2, the State is required annually to deposit 1.5% of general fund revenues into the Budget Stabilization Account ("BSA"). From fiscal year 2015-16 through 2029-30, under Proposition 2, one half of the amount required to be deposited to the BSA must be applied to the payment of debts for pension and retiree benefits and specified debts to local governments and certain other State accounts. In years when capital gains tax revenues exceed 8% of general fund revenues, a portion of such excess capital gains tax revenue is also required to be applied to the pay down of State debt. Deposits to the BSA are required until the amount on hand in the BSA reaches 10% of general fund revenues. Once the maximum has been reached, the required deposit amount may be applied to other expenditures.

In the event the Governor were to declare a budget emergency, Proposition 2 would permit a smaller deposit to the BSA. A budget emergency may be called if there is a natural disaster such as an earthquake or flood or general fund revenues reach a certain minimum level. Withdrawals from the BSA, under Proposition 2, are permitted upon a majority vote of the legislature only when the Governor has declared a budget emergency. If a budget emergency is called for two straight years in a row, in the second budget emergency year, the entire amount on hand might be withdrawn.

Public School System Stabilization Account. In the event capital gains tax revenues collected by the State in any given fiscal year exceed 8% of general fund revenues, a portion of such excess is required to be deposited into the newly established under Proposition 2 Public School System Stabilization Account (the "PSSSA") which serves as a reserve account for school funding in years when the State budget is smaller.

SB 858 and SB 751. State regulations require school districts to budget a reserve for economic uncertainties. The recommended minimum amounts vary from 1% to 5% of total expenditures and other financing uses, depending on the district's ADA. SB 858, adopted in June 2014, imposed limitations relating to ending fund balances for school districts. Beginning in 2015–16, a school district that proposes to adopt or revise a budget that includes an ending fund balance that is two to three times higher than the state's minimum recommended reserve for economic uncertainties must substantiate the need for the higher balance. SB 751, which was adopted in October 2017 and amended Section 42127.01 of the Education Code, placed certain restrictions on the amount of a school district's ending fund balances if a certain amount of funds is available in the State's Public School System Stabilization Account ("PSSSA"). In a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts for that fiscal year, (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES—Proposition 98"), a school district's adopted or revised budget may not contain an assigned or unassigned ending fund balance higher than 10% of expenditures and other financing uses. A county superintendent could waive the prohibition, pursuant to specified conditions, for up to two consecutive years within a three-year period. SB 751 does not apply to school districts with an ADA of less than 2,501 students and basic aid school districts.

If the cap is triggered, unless exempted, a school district would be required to increase expenditures in order to bring its ending fund balance down to the maximum level. The PSSA appears to be intended to provide a substitute for local reserves in the event of a future economic downturn.

The District is required to maintain a reserve for economic uncertainties at least equal to 4% of general fund expenditures and other financing uses. On June 30, 2018, the District had unassigned available reserves of $7,689,879.80. The District is unable to predict what the effect on its budget will be following implementation of these new rules. It is anticipated that if the cap is triggered, it will materially change the District's current policies on reserves.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 26, 98 and 111 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. The nature and impact of these measures cannot be anticipated by the District.

SANTA ANA UNIFIED SCHOOL DISTRICT

Introduction

The District, established in 1888, is comprised of 24 square miles located in northern Orange County. The District serves the residents in portions of the Cities of Santa Ana, Irvine, Newport Beach, Costa Mesa, Orange, Tustin and adjacent unincorporated areas of the County and provides education services in 36 elementary schools, nine middle schools and seven high schools. In addition, the District includes three educational options secondary schools, a deaf and hard of hearing center, two early education centers and an early learner childhood education special needs development center. The District also operates one charter school and there are five additional charter schools operating within the District. In January, 2019, the District purchased commercial property (a two-story office building) in the Irvine area and is contemplating development of another school site serving District students; however, the District has not yet received approval from the State for the site, and development of the site, if at all, would not commence until Fall 2019 at the earliest. The estimated ADA for the District for fiscal year 2018-19 is 45,017 students and the District has a 2018-19 assessed valuation of $33,140,635,319. The audited financial statements for the District for the fiscal year ended June 30, 2018 are attached as APPENDIX D hereto.

Board of Education

The District is governed by a Board. The Board consists of five members who are elected at-large to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. There is currently one vacant seat on the Board. The years in which the current terms for each member of the Board expire are set forth in the following table:

SANTA ANA UNIFIED SCHOOL DISTRICT
Board of Education

Name	Office	Term Expires December
Valerie Amezcua	President	2022
Rigo Rodriguez, Ph.D.	Vice President	2020
Alfonso Alvarez, Ed.D.	Clerk	2020
John Palacio	Member	2022

Source: The District.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California 92701-6322, Attention: Assistant Superintendent, Business Services. The District may charge a small fee for copying, mailing and handling.

Key Personnel

The following is a listing of the key administrative personnel of the District and brief biographies of certain District administrators follow.

Name	Title
Stefanie P. Phillips, Ed.D.	Superintendent
Thomas A. Stekol, Ed.D.	Deputy Superintendent, Administrative Services
Manoj Roychowdhury	Assistant Superintendent, Business Services
Orin L. Williams	Assistant Superintendent, Facilities & Governmental Relations

Dr. Stefanie P. Phillips – Superintendent. Dr. Phillips has served as Superintendent of the District since August, 2016. Prior to serving as Superintendent, Dr. Phillips served as Deputy Superintendent of Business & Operations, Chief Business Official of the District for three years. Prior to the District, Dr. Phillips served as Deputy Superintendent for the Clayton County Public Schools in Jonesboro, Georgia, where she had direct oversight for the Academic, Human Resources, Operations and Finance Divisions. She also previously served as the Deputy Superintendent and the Associate Superintendent of Chino Valley Unified School District and as an Assistant Superintendent of the Ontario-Montclair School District. Dr. Phillips received her Doctorate from the University of Southern California in Education Leadership. She received her Master of Business Administration in Finance and Bachelor of Science in Managerial Economics from the University of California, Davis. She has taught teacher preparation and leader preparation as an adjunct university professor.

Dr. Thomas A. Stekol – Deputy Superintendent, Administrative Services. Dr. Stekol was appointed the Deputy Superintendent, Administrative Services of the District in November, 2018. Prior to serving the District, Dr. Stekol served as Assistant Superintendent of Human Resources for the Redondo Beach Unified School District for five years. Dr. Stekol has over 24 years of experience in school administration. Dr. Stekol earned a Bachelor of Arts in History from the University of California, Berkeley, a Masters' Degrees in Education Administration from Pepperdine University and a Masters' Degree in Foreign Service from Georgetown University and he received his Doctorate in Education from the University of California, Irvine/University of California, Los Angeles.

Manoj Roychowdhury – Assistant Superintendent, Business Services. Mr. Roychowdhury was appointed the Assistant Superintendent, Business Services of the District in October, 2017. Prior to serving the District, Mr. Roychowdhury served as the Assistant Superintendent, Business Services for El Rancho Unified School District and as Chief Fiscal Executive of West Covina Unified School District for five years. Mr. Roychowdhury has over 24 years of experience in finance, systems and consulting and has worked for the last 17 years in school business at the county and school district levels. Prior to his career in education, Mr. Roychowdhury worked for consulting firms including KPMG and Deloitte. Mr. Roychowdhury is a graduate of the Chief Business Official Mentor program, which is an interagency collaboration between the Fiscal Crisis & Management Assistance Team (FCMAT), CASBO, the California County Superintendents Educational Services Association, and School Services of California, Inc.

Orin L. Williams – Assistant Superintendent, Facilities & Governmental Relations. Mr. Williams has served as the Assistant Superintendent, Facilities & Governmental Relations of the District since July, 2015. Prior to the District he served as the Director of Maintenance and Operations at Riverside Unified School District and the Associate Vice Chancellor, Facilities, Planning and Development at Riverside Community College District. Mr. Williams has a total of 25 years of experience in public education facilities planning, construction and maintenance and has led capital facilities bond programs totaling over $1.6 billion. Mr. Williams is President-elect for the Southern California Chapter of the Association for Learning Environments (formerly the Council of Educational Facilities Planners International), a member of the Coalition for Adequate School Housing ("CASH"), and School Energy Coalition ("SEC"), and serves on various committees within CASH and SEC. Mr. Williams earned a Bachelor's Degree in Architecture from California State Polytechnic University, Pomona.

Employees and Labor Relations

The District employs approximately 2,644 full-time equivalent certificated academic professionals as well as approximately 1,800 full-time equivalent classified employees.

The certificated employees of the District have assigned the Santa Ana Educators' Association ("SAEA") as their exclusive bargaining agent. The contract between the District and SAEA expires on June 30, 2019.

The classified employees have assigned California School Employees Association and its Santa Ana Chapter 41 ("CSEA") as their exclusive bargaining agent. The contract between the District and CSEA expires on June 30, 2019.

District Retirement Systems

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

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. The District is currently required by such statutes to contribute 12.58% of eligible salary expenditures, while participants contribute 8% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 6.30% of teacher payroll. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution that will vary from year-to-year based on statutory criteria.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 ("AB 1469") which implemented a new funding strategy for STRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% in fiscal year 2015-16 and will continue to increase annually until the employer contribution rate is 19.10% of covered payroll as further described below. Teacher contributions will also increase from 8.00% to a total of 10.25% of pay, phased in over the three year period from 2014-15 through 2017-18. The State's total contribution will also increase from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annually for a supplemental inflation protection program for a total of 8.80%. 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 STRS 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.

Pursuant to A.B. 1469, school district's contribution rates will increase over a seven-year phase-in period in accordance with the following schedule:

SCHOOL DISTRICT CONTRIBUTION RATES
State Teachers' Retirement Fund

Effective Date (July 1)	School District Contribution Rate to STRS
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	18.13
2020	19.10

The District contributed $21,815,399 to STRS for fiscal year 2014-15, $28,047,946 for fiscal year 2015-16, $34,020,809 for fiscal year 2016-17 and $37,644,921 for fiscal year 2017-18. Such contributions were equal to 100% of the required contributions for the respective years. The District has budgeted a contribution of $45,048,276 for fiscal year 2018-19. With the implementation of AB 1469, the District anticipates that its contributions to STRS 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 STRS in future fiscal years.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. The District is currently required to contribute to PERS at an actuarially determined rate, which is 15.531% of eligible salary expenditures for fiscal year 2017-18, while participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries and participants enrolled in PERS subsequent to January 1, 2013 contribute at an actuarially determined rate which is currently set at 6.59% of their respective salaries.

On April 19, 2017, the Board of Administration of PERS adopted new contribution rates for school districts. The revised contribution rates are, as were the previous contribution rates, based on certain demographic assumptions adopted by the Board of Administration in February 2014 which took into account longer life spans of public employees from previous assumptions. Such demographic assumptions generally increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and were phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. PERS estimated that the new demographic assumptions would cost public agency employers up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that current and future experiences differ from PERS' assumptions, the required employer contributions may vary. The 2017-18 contribution rate also took into account increased payroll over 2016-17, a lowered discount rate (which was approved in December 2016) as well as lower than predicted investment returns in prior years.

The District contributed $9,348,884 to PERS for fiscal year 2014-15, $10,680,160 for fiscal year 2015-16, $12,902,202 for fiscal year 2016-17 and $14,777,858 for fiscal year 2017-18, which amounts equaled 100% of required contributions to PERS. The District has budgeted a contribution of $17,400,890 for fiscal year 2018-19. Additionally, the District contributed $$313,139 to PERS Safety Risk Pool for fiscal year 2014-15, $371,309 for fiscal year 2015-16, $403,287 for fiscal year 2016-17 and $402,541 for fiscal year 2017-18, which amounts equaled 100% of required contributions to PERS Safety Risk Pool. The District has budgeted a contribution of $525,376 to PERS Safety Risk Pool for fiscal year 2018-19.

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

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for PERS and STRS as of July 1, 2017.

FUNDED STATUS
STRS (DEFINED BENEFIT PROGRAM) and PERS
Actuarial Valuation as of July 1, 2017
(Dollar Amounts in Millions) [1]

Plan	Accrued Liability	Market Value of Trust Assets	Unfunded Liability
Public Employees Retirement Fund (PERS)	$84,416	$60,865	($23,551)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	286,950	197,718	(107,261)

[1] Amounts may not add due to rounding.
Source: PERS State & Schools Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.

Unlike PERS, STRS contribution rates for participant employers, employees hired prior to the Implementation Date (defined herein) and the State are set by statute and do not currently vary from year-to-year based on actuarial valuations. As a result of the Reform Act (defined below), the contribution rate for STRS participants hired after the Implementation Date will vary from year-to-year based on actuarial valuations. See "—California Public Employees' Pension Reform Act of 2013" below. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS has increased significantly. AB 1469 is intended to address this unfunded liability. The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make larger contributions to STRS in the future. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

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

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

GASB Statement Nos. 67 and 68. On June 25, 2012, GASB approved Statements Nos. 67 and 68 ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District's proportionate shares of the net pension liability of STRS and PERS, as of June 30, 2018, are as shown in the following table.

Pension Plan	Proportionate Share of Net Pension Liability
STRS	$472,622,449
PERS	177,755,962
PERS - Safety Pool	2,899,401
Total	$653,277,812

Source: The District.

For further information about the District's contributions to STRS and PERS, see Note 13 in the District's audited financial statements for fiscal year ended June 30, 2018 attached hereto as Appendix B.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. In June 2015, GASB replaced Statement No. 45 with Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which the District implemented in fiscal year 2017-18.

Employees who are eligible to receive retiree employment benefits other than pensions ("Health & Welfare Benefits") while in retirement must meet specific criteria, *i.e.*, age and years with the District. Contribution requirements are established and may be amended by agreement between the District and each of its bargaining units. Per the 2017-18 audited financial statement, at July 1, 2017, 744 retirees and their beneficiaries were receiving Health & Welfare Benefits with 3,922 employees earning service credit towards eligibility.

Expenditures for Health & Welfare Benefits are recognized each pay period at a rate that approximates the amount of premiums paid. During fiscal year 2017-18, the District contributed $49,622,006 towards Health & Welfare Benefits, of which $9,622,006 was used for current premiums and $40,000,000 was set-aside in an "OPEB trust" to prefund Health and Welfare Benefits.

The following table shows the changes in the District's net Health and Welfare Benefits as of June 30, 2017.

	Total Liability	Plan Fiduciary Position	Net Liability
Balance at June 30, 2016	$179,726,603	--	$179,726,603
Service Cost	4,331,230	--	4,331,230
Interest	10,574,943	--	10,574,943
Contributions- employer	--	21,167,212	(21,167,212)
Net investment income	--	186,014	(186,014)
Benefit payments	(11,167,212	(11,167,212)	--
Administrative expenses	--	(1,322)	1,322
Net Change in Total OPEB Liability	3,3738,961	10,184,692	(6,445,731)
Balance at June 30, 2017	$183,465,564	$10,184,692	$173,280,872

Source: The District.

Risk Management

The District is exposed to various risks of loss related to tortious liability, theft, damage or destruction of assets, errors or omissions, employee injuries or natural disasters.

The District self-insures for workers' compensation claims up to $1 million and has excess coverage through Alliance of Schools for Cooperative Insurance ("ASCIP"). The District also uses ASCIP for property and liability coverage up to $5 million. Excess property and liability coverage is provided through Schools Excess Liability Fund. Both ASCIP and SELF are joint powers authorities. The relationship between the District and the joint powers authorities is such that the joint powers authorities are not a component unit of the District for financial reporting purposes.

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, The District believes that the recorded liabilities for self-insured claims are adequate.

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District Debt Structure

Long-Term Debt. A schedule of the District's changes in long-term debt for the year ended June 30, 2018 is shown below:

SANTA ANA UNIFIED SCHOOL DISTRICT
Long-Term Debt

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
General obligation bonds	$323,042,817	$ 75,863,621	$ 87,260,000	$311,646,438	$13,005,000
Premium on issuance	7,595,2232	11,591,284	2,561,602	16,624,905	--
Certificates of Participation	73,991,465	20,845,591	25,640,000	69,197,056	4,080,000
Premium on issuance	1,068,209	2,470,908	1,089,884	2,449,233	--
2005 QZAB	4,500,000	--	--	4,500,000	--
Lease Purchase Agreement	2,021,163	12,978,837	1,119,225	13,880,775	1,199,748
Career technical education facilities loan	558,740	--	251,524	307,216	153,608
Compensated absences	2,946,847	445,990	--	3,392,837	--
Supplemental early retirement plan (SERP)	--	4,840,000	--	4,840,000	968,000
Claims liability	12,885,320	4,114,976	3,859,848	13,140,448	3,859,848
OPEB obligations	51,785,080	14,907,495	21,855,308	177,173,367	--
Total	$480,394,864	$148,058,702	$143,637,391	$617,152,275	$23,266,204

Source: The District.

General Obligation Bonds

On November 2, 1999, the District received authorization to issue $145,150,000 principal amount of general obligations bonds (the "1999 Authorization"). Pursuant to the 1999 Authorization, the District issued its $56,320,000 General Obligation Bonds, Election of 1999, Series 2000 (the "Series 2000 Bonds"), its $38,000,000 General Obligation Bonds, Election of 1999, Series 2002 and its $50,828,155.60 General Obligation Bonds, Election of 1999, Series 2002B (the "Series 2002 Bonds"). The District also issued its $49,775,000 2009 General Obligation Refunding Bonds (the "2009 Refunding Bonds") to refund a portion of the Series 2000 Bonds, its $12,290,000 2010 General Obligation Refunding Bonds and its $19,720,000 2012 General Obligation Refunding Bonds, each to refund a portion of the outstanding Series 2002 Bonds. A portion of the 2009 Refunding Bonds are intended to be refunded by the Refunding Bonds described herein. See "PLAN OF FINANCE – The Refunding."

The District received authorization from the voters within the District to issue $200,000,000 aggregate principal amount of general obligation bonds pursuant to an authorization on June 3, 2008 (the "2008 Authorization"). On August 19, 2008, the District caused the issuance of its $99,997,856 Election of 2008 General Obligation Bonds, Series A (the "Series A Bonds"), on December 16, 2009, the District issued its $34,861,114.25 Election of 2008 General Obligation Bonds, Series B and its $19,240,000 Election of 2008 General Obligation Bonds, Series C (Qualified School Construction Bonds) and on December 13, 2010, the District issued its $8,591,011.05 Election of 2008 General Obligation Bonds, Series D, its $19,775,000 Election of 2008 General Obligation Bonds, Series E (Federally Taxable Direct-Pay - Build America Bonds), and its $17,535,000 Election of 2008 General Obligation Bonds, Series F (Federally Taxable Direct-Pay – Qualified School Construction Bonds) under the 2008 Authorization. On May 16, 2018, the District issued its $66,985,000 2018 General Obligation Refunding Bonds to refund a portion of the outstanding Series A Bonds. No additional general obligation bonds remain for issuance under the 1999 Authorization or the 2008 Authorization, except for refunding bonds.

On November 6, 2018, the District received authorization to issue $232,000,0000 aggregate principal amount of general obligation bonds (the "Authorization"). The Bonds are the first series of bonds to be issued pursuant to the Authorization, subsequent to which $172,000,000* principal amount of general obligation bonds will remain for issuance.

Certificates of Participation

The District has three series of certificates of participation outstanding.

On October 1, 1999, the District caused the execution and delivery of $17,691,700.20 principal amount of its 1999 Certificates of Participation (the "1999 Certificates") in order to finance the construction of two elementary schools. The 1999 Certificates have a final maturity date of April 1, 2037 and, as of June 30, 2018, were outstanding in the principal amount of $26,317,056, including accreted interest on the capital appreciation certificates.

On June 14, 2007, the District executed and delivered $29,725,000 aggregate principal amount of 2007 Certificates of Participation (the "2007 Certificates") in order to finance the acquisition and construction of certain infrastructure improvements and equipment and to refinance certain lease obligations. On May 24, 2018, District executed and delivered $19,165,000 of its 2018 Refunding Certificates of Participation (the "2018 Refunding Certificates") which prepaid the outstanding 2007 Certificates in full. As of June 30, 2018, the 2018 Refunding Certificates are outstanding in the principal amount of $19,165,000.

On December 5, 2012, the District caused the execution and delivery of its 2012 Certificates of Participation Qualified Zone Activity Bonds- Direct Payment Subsidy Option (Federally Taxable) in the principal amount of $30,000,000 (the "2012 Certificates") in order to finance certain facilities projects. The 2012 Certificates have a final maturity date of December 1, 2035 and, as of June 30, 2018, were outstanding in the principal amount of $23,715,000.

Lease Purchase Agreement. The District has entered into a Lease Purchase Agreement to finance various construction and modernization projects. The Lease Purchase Agreement matures December 1, 2026 and bears interest at a rate of 2.29%. As of June 30, 2018, the Lease Purchase Agreement was outstanding in the amount of $13,880,775, however, the total amount available to the District under the Lease Purchase Agreement is $15,000,000 and subsequent to June 30, 2018, the District drew down the Lease Purchase Agreement in full.

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* Preliminary; subject to change.

The annual lease payments with respect to the District's outstanding certificates of participation and Lease Purchase Agreement are as follows:

Year Ending June 30	1999 Certificates	2012 Certificates	Lease Purchase Agreement	2018 Refunding Certificates	Total
2019	$2,295,000.00	$2,342,755.00	$1,503,880.61	$1,293,117.08	$ 7,434,752.69
2020	2,370,156.40	2,293,673.75	1,556,701.53	1,296,850.00	7,517,381.68
2021	2,443,121.90	2,244,380.00	1,607,752.82	1,305,650.00	7,600,904.72
2022	2,520,385.50	2,194,873.75	1,666,968.17	1,309,150.00	7,691,377.42
2023	2,602,473.30	2,145,155.00	1,724,192.68	1,321,400.00	7,793,220.98
2024	2,685,000.00	2,095,223.75	1,779,426.29	1,301,900.00	7,861,550.04
2025	2,765,049.00	2,045,080.00	1,802,867.81	1,297,150.00	7,910,146.81
2026	2,851,723.50	1,994,723.75	1,864,716.82	1,301,400.00	8,012,564.07
2027	2,938,332.80	1,944,155.00	1,924,353.69	1,299,150.00	8,105,991.49
2028	3,024,543.40	1,893,373.75	--	1,765,650.00	6,683,567.15
2029	3,115,000.00	1,837,430.00	--	1,767,400.00	6,719,830.00
2030	3,206,421.25	1,781,180.00	--	1,771,400.00	6,759,001.25
2031	3,296,417.45	1,719,555.00	--	1,767,400.00	6,783,372.45
2032	3,395,000.00	1,657,680.00	--	1,770,650.00	6,823,330.00
2033	993,534.95	1,599,080.00	--	1,765,650.00	4,358,264.95
2034	1,034,490.60	1,538,620.00	--	1,762,650.00	4,335,760.60
2035	1,071,953.40	1,477,640.00	--	1,766,400.00	4,315,993.40
2036	460,000.00	1,421,010.00	--	2,311,400.00	4,192,410.00
2037	--	--	--	2,525,400.00	2,525,400.00
Total	$43,068,603.45	$34,225,588.75	$15,430,860.42	$30,699,767.08	$124,842,431.94

Qualified Zone Activity Bond. In October, 2005, the District issued its $4,500,000 Qualified Zone Activity Bonds to finance capital improvements, equipment and educational development programs (the "QZAB"). The District is required to deposit $230,810 annually into an investment account through the maturity date of the QZAB on October 26, 2021. Interest earned on the deposits to the investment account are applied to pay the balance of the amounts due on the QZAB above the amount of the District's annual deposit.

Career Technical Education Facilities Loan. The District obtained a loan to finance certain start-up costs of its career technical education program. As of June 30, 2018, the balance on that loan was $307,216.

Short-Term Debt

As of June 30, 2018, the District did not have any short-term debt outstanding. The District does not expect to issue any tax and revenue anticipation notes in fiscal year 2018-19.

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ORANGE COUNTY EDUCATIONAL INVESTMENT POOL

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

Oversight of the investments is conducted in several ways. First, the Board established the County Treasury Oversight Committee (the "Committee") on December 19, 1995, pursuant to California Government Code Section 27130 *et. seq*. The Committee's primary responsibilities are as follows: to review and monitor the annual investment policy; cause an annual audit to be conducted to determine if the County Treasurer is in compliance with California Government Code Sections 27130 to 27137, and to investigate any and all irregularities in the treasury operation that are reported. The County Treasurer nominates the public members and the Board confirms the members of the Committee, which is comprised of the County Executive Officer, the County Auditor-Controller, the County Superintendent of Schools, and four public members. Next, the Internal Audit Department audits the portfolio on a quarterly and annual basis pursuant to California Government Code Sections 26920 and 26922. Finally, an annual compliance audit is also conducted as required by California Government Code Sections 27134. All investment audit reports and the monthly Treasurer's Investment Report are available on-line at ocgov.com/ocinvestments. (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.)

Santa Ana Unified School District's funds held by the County Treasurer are invested in the Orange County Educational Investment Pool (the "Pool") which pools all of the School District's funds. As of February 28, 2019, the balance in Santa Ana Unified School District's funds was $255,528,531 or 8.0% of the Pool. The pool is invested 97% in securities rated in the two highest rating categories. As of February 28, 2019, the Pool has a weighted average maturity of 330 days and the year-to-date net yield is 1.89%.

The following represents the composition of the Pool as of February 28, 2019 :

Type of Investment	Market Value (In thousands)	Percent of Pool
U.S. Government Agencies	$ 2,901,400	58.22%
U.S. Treasuries	1,433,360	28.76
Municipal Debt	279,346	5.62
Medium-Term Notes	293,163	5.88
Money Market Mutual Funds	21,656	0.43
Local Agency Investment Fund	32,934	0.66
Certificates of Deposit	21,441	0.43
Total	$ 4,983,300	100.00%

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 9 months following the end of the District's fiscal year (currently ending June 30), which date would be April 1, commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain enumerated events. The District will enter into a Continuing Disclosure Agreement ("Continuing Disclosure Agreement") for the benefit of the Owners of the Bonds. The Annual Report and each notice of enumerated events will be filed by the District with the Electronic Municipal Markets Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Within the past five years, the District failed to file, in a timely manner, certain information required to be filed in the annual report for fiscal year 2012-13, which annual report was due March 31, 2014, including certain required operating information, as required by its existing continuing disclosure obligations. The missing operating information from the 2012-13 annual report was subsequently filed on June 29, 2015. The District has engaged Applied Best Practices, LLC to act as Dissemination Agent with respect to the undertaking to be entered into with respect to the Bonds and to assist the District with compliance with its current and future continuing disclosure obligations.

LEGAL MATTERS

The legal opinion of Dannis Woliver Kelley, Long Beach, California, Bond Counsel to the District ("Bond Counsel"), attesting to the validity of the Bonds, will be supplied to the Underwriter of the Bonds without charge, a form of which is attached hereto as Exhibit A. Dannis Woliver Kelley is also acting as Disclosure Counsel to the District. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as counsel to the Underwriter. The above professionals will receive compensation contingent upon the sale and delivery of the Bonds.

Limitation on Remedies; Amounts Held in the County Treasury Pool

The opinion of Bond Counsel, the proposed forms of which are attached hereto as APPENDIX A, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. The rights of the Owners of the Bonds are subject to certain limitations. Enforceability of the rights and remedies of the Owners of the Bonds, and the obligations incurred by the District, are limited by applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of

America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against school and community college districts in the State. Bankruptcy proceedings, if initiated, could subject the beneficial owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies, no involuntary petitions for bankruptcy relief are permitted. While current State law precludes school districts from voluntarily seeking bankruptcy relief under Chapter 9 of the Bankruptcy Code without the concurrence of the State, such concurrence could be granted or State law could be amended.

The Resolutions and the Act require the County to annually 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 the principal of, premium, if any, and interest on the Bonds. The County, on behalf of the District, is thus expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Investment Pool, as described in "APPENDIX E - ORANGE COUNTY INVESTMENT POLICY STATEMENT" attached hereto. In the event the District or the County were to go into bankruptcy, a federal bankruptcy court might hold that the Owners of the Bonds are unsecured creditors with respect to any funds received by the District or the County prior to the bankruptcy, where such amounts are deposited into the County Treasury Pool, and such amounts may not be available for payment of the principal of and interest on the Bonds unless the Owners of the Bonds can "trace" those funds. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the District's Debt Service Fund where such amounts are invested in the County Investment Pool. Under any such circumstances, there could be delays or reductions in payments on the Bonds.

California Senate Bill 222

Government Code Section 53515, added by SB 222, applicable to general obligations bonds issued after its effective date, removes the extra step between (a) the issuance of general obligation bonds by cities, counties, cities and counties, school districts, community college districts, authorities and special districts; and (b) the imposition of a lien on the future *ad valorem* property taxes that are the source of repayment of the general obligation bonds. By clarifying that the lien created with each general obligation bond issuance is a "statutory" lien (consistent with bankruptcy statutory law and case precedent), SB 222, while it does not prevent default, should reduce the ultimate bankruptcy risk of non-recovery on local general obligation bonds, and thus potentially improve ratings, interest rates and bond cost of issuance.

Special Revenues

If the District were to become a debtor in a Chapter 9 proceeding, because the Bonds are for the financing of specific capital projects and are supported by a consensual lien on *ad valorem* property taxes that are use-restricted to the repayment of the Bonds, the District believes that those taxes are "special revenues" as defined in the Bankruptcy Code, and thus there is a special revenue lien in favor of owners of the Bonds in addition to, and separate and independent of, the statutory lien created by SB 222. In comparison to other consensual pledges and liens arising by agreement (that are all made ineffective post-bankruptcy by Section 552 of the Bankruptcy Code), special revenues acquired by a municipality during a Chapter 9 case will remain subject to the lien that arose from the security agreement entered into prior to the beginning of the case, and will survive the conclusion of the Chapter 9 proceeding. In addition, the automatic stay arising upon the filing of the bankruptcy petition does not stay the application of those special revenues to payment of the bonds secured by such special revenues. Thus, regularly scheduled payments of principal and interest to Owners of the Bonds likely would continue under 11 U.S.C. §922(d) throughout any bankruptcy proceeding.

Based on the foregoing, if the District were to become a debtor in a Chapter 9 proceeding, the District believes that: the *ad valorem* property taxes could not be used for any other purpose other than repayment of the Bonds; the *ad valorem* property taxes should be determined to be special revenues in a Chapter 9 proceeding, and thus Owners of the Bonds would ordinarily continue to be paid post-petition; and the *ad valorem* property taxes are also protected by a statutory lien in favor of the bondholders. It should be noted, however, that it is possible – in the context of confirming a Plan of Adjustment (the "Plan") in a Chapter 9 case where the Plan has not received the requisite consent of the holders of the Bonds – a bankruptcy court may confirm a Plan that adjusts the timing of payments on the Bonds or the interest rate or other terms of the Bonds provided that (a) the Bondholders retain their lien on the revenues subject to the statutory and/or special revenues lien, (b) the payment stream has a present value equal to the value of the revenues subject to the lien(s) and (c) the bankruptcy court finds that these and any other adjustments to the Bonds' terms are fair and equitable.

The Resolutions and the Government Code require the County to annually 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 the principal of, premium, if any, and interest on the Bonds. The County on behalf of the District is thus expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Investment Pool, as described in "APPENDIX E - ORANGE COUNTY INVESTMENT POLICY STATEMENT" attached hereto. In the event the District or the County were to go into bankruptcy, a federal bankruptcy court might hold that the Owners of the Bonds are unsecured creditors with respect to any funds received by the District or the County prior to the bankruptcy, where such amounts are deposited into the County Treasury Pool, and such amounts may not be available for payment of the principal of and interest on the Bonds unless the Owners of the Bonds can "trace" those funds. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the District's Debt Service Fund where such amounts are invested in the County Treasury Pool. Under any such circumstances, there could be delays or reductions in payments on the Bonds.

TAX MATTERS

The delivery of the Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Bonds is also subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Bonds is exempt from personal income taxes of the State of California. The forms of Bond Counsel's anticipated opinion respecting the Bonds are included in APPENDIX A. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate (the "Tax Certificate") of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Resolutions by the District subsequent to the issuance of the Bonds. The Tax Certificate contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants could cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service ("IRS" or the "Service") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the District as the "taxpayer," and the Owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the respective Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount and Premium on Certain of the Bonds

The initial public offering price of certain of the Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. The tax rules requiring inclusion in income annually by the holder of a debt instrument having original issue discount of the daily portion of original issue discount for each day during a taxable year in which such holder held such debt instrument is inapplicable to the Bonds. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, and will be added to the holder's basis in the Discount Bond, for federal income tax purposes, on the same terms and conditions as those for other interest on the bonds described above under "TAX MATTERS." Such interest is considered to be accrued in accordance with the constant-yield-to-maturity method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial Owner prior to maturity, the amount realized by such Owner in excess of the basis of such Discount Bond in the hands of such Owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Forms of Bond Counsel Opinion. The forms of the proposed opinion of Bond Counsel relating to the Bonds are attached to this Official Statement as Appendix A.

LEGALITY FOR INVESTMENT

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

RATINGS

Fitch Ratings ("Fitch") has assigned its municipal bond rating of "AAA" to the Bonds and Moody's Investors Service ("Moody's") has assigned its municipal bond rating of "Aa3" to the Bonds. Such ratings reflect only the views of Fitch and Moody's and an explanation of the significance of such ratings may be obtained as follows: Fitch at 33 Whitehall Street, New York, New York 10004, tel. (212) 908-0800 and Moody's at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553-0300. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

ESCROW VERIFICATION

The sufficiency of amounts on deposit in the Escrow Fund to pay the redemption price of the Refunded 2009 Bonds will be verified by Causey Demgen & Moore, P.C., certified public accountants (the "Verification Agent"). The Verification Agent will deliver a report to that effect on the date of delivery of the Refunding Bonds.

UNDERWRITING

RBC Capital Markets, LLC (the "Underwriter"), has agreed to purchase the Series A Bonds at the purchase price of $______ (reflecting the principal amount of the Series A Bonds plus a net original issue premium in the amount of $______ less an Underwriter's discount of $_______), at the rates and yields shown on the inside cover pages hereof. The Underwriter has agreed to purchase the Refunding Bonds at the purchase price of $______ (reflecting the principal amount of the Refunding Bonds plus a net original issue premium in the amount of $______ less an Underwriter's discount of $_______), at the rates and yields shown on the inside cover pages hereof.

The Underwriter may offer and sell the Bonds to certain dealers and others at yields other than the yields stated on the inside cover pages. The offering prices may be changed from time to time by the Underwriter.

Underwriter Disclosures. The Underwriter has provided the following information for inclusion in this Official Statement:

The Underwriter and its affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, The Underwriter and its affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of the offering of the Bonds or other offerings of the District; provided, however, that potential investors are advised that the offering of the Bonds is made only by means of the Official Statement. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than as contained in the Official Statement.

NO LITIGATION

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

OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made such documents and reports for full and complete statements of the contents thereof. Copies of the Resolutions are available upon request from the Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California 92701.

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 be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

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

SANTA ANA UNIFIED SCHOOL DISTRICT

By: ____
Superintendent

APPENDIX A

FORMS OF BOND COUNSEL OPINION

[Closing date]

Board of Education
Santa Ana Unified School District
1601 East Chestnut Avenue
Santa Ana, California 92701

Re: $______ Santa Ana Unified School District (Orange County, California) General Obligation Bonds, 2016 Election, 2019 Series A

Ladies and Gentlemen:

We have acted as bond counsel for the Santa Ana Unified School District (Orange County, California) (the "District"), in connection with the issuance by the District of $_____ aggregate principal amount of the District's General Obligation Bonds, 2018 Election, 2019 Series A (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53506), as amended and that certain resolution adopted by the Board of Education of the District on January 22, 2019 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and the County of Orange as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any effect on the Bonds if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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 or events are taken or do occur. Our engagement with respect to the 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 any parties other than the District. We have not undertaken to verify independently, and have assumed, 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. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, 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 public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 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 Bonds constitute valid and binding general obligations of the District, payable as to principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. It is further our opinion, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Resolution and in reliance upon representations and certifications of the District made in the Tax Certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, when the Bonds are delivered to and paid for by the initial purchasers thereof, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above. The foregoing opinions are not a guarantee of results.

Respectfully submitted,

Dannis Woliver Kelley

[Closing date]

Board of Education
Santa Ana Unified School District
1601 East Chestnut Avenue
Santa Ana, California 92701

Re: $______ Santa Ana Unified School District (Orange County, California)
2019 General Obligation Refunding Bonds

Ladies and Gentlemen:

We have acted as bond counsel for the Santa Ana Unified School District (Orange County, California) (the "District"), in connection with the issuance by the District of $_____ aggregate principal amount of the District's 2019 General Obligation Refunding Bonds (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53550), as amended, and that certain resolution adopted by the Board of Education of the District on March 26, 2019 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and the County of Orange as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any effect on the Bonds if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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 or events are taken or do occur. Our engagement with respect to the 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 any parties other than the District. We have not undertaken to verify independently, and have assumed, 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. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, 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 public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the 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 Bonds constitute valid and binding general obligations of the District, payable as to principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. It is further our opinion, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Resolution and in reliance upon representations and certifications of the District made in the Tax Certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, when the Bonds are delivered to and paid for by the initial purchasers thereof, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above. The foregoing opinions are not a guarantee of results.

Respectfully submitted,

Dannis Woliver Kelley

APPENDIX B

SANTA ANA UNIFIED SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2018

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SANTA ANA
UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SANTA ANA UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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

VALUE THE difference

INDEPENDENT AUDITOR'S REPORT

Governing Board
Santa Ana Unified School District
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Ana Unified 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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Opinions

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

Emphasis of Matter - 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 19, budgetary comparison schedule on page 87, schedule of changes in the District's net OPEB liability and related ratios on page 88, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 89, schedule of the District's proportionate share of the net pension liability on page 90, and the schedule of District contributions on page 91, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Ana Unified 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 5, 2018, on our consideration of the Santa Ana Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Ana Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Ana Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2018

This section of Santa Ana Unified 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 for the year ended 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 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. They present governmental activities. These statements include all assets of the District (including capital assets), 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 three categories of activities: governmental, proprietary, and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Proprietary Funds* are prepared using the economic resources measurement focus and the 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 Santa Ana Unified 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 governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary Funds **-** When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A 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 and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity. 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 $246,256,918 for the fiscal year ended June 30, 2018, reflecting an increase of 11.3 percent since June 30, 2017. Of this amount, $158,539,821 was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	(as Restated) 2017
Assets		
Current and other assets	$ 343,906,148	$ 343,754,944
Capital assets	1,044,641,930	1,026,766,213
Total Assets	**1,388,548,078**	**1,370,521,157**
Deferred Outflows of Resources	**250,230,418**	**137,410,584**
Liabilities		
Current liabilities, including current portion of long-term obligations	102,810,410	71,005,086
Long-term obligations	593,886,071	612,730,964
Aggregate net pension liability	653,277,812	578,784,361
Total Liabilities	**1,349,974,293**	**1,262,520,411**
Deferred Inflows of Resources	**42,547,285**	**24,149,670**
Net Position		
Net investment in capital assets	708,320,263	697,858,055
Restricted	158,539,821	141,102,128
Unrestricted	(620,603,166)	(617,698,523)
Total Net Position	**$ 246,256,918**	**$ 221,261,660**

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 – decreased to $(620,603,166) compared to $(617,698,523).

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 21. 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	$ 2,715,977	$ 2,834,549
Operating grants and contributions	174,334,869	169,012,131
Capital grants and contributions	3,603,570	236,844
General revenues:		
Federal and State aid not restricted	372,146,468	390,117,938
Property taxes	192,750,585	175,776,682
Other general revenues	23,488,370	35,729,250
Total Revenues	**769,039,839**	**773,707,394**
Expenses		
Instruction	489,567,397	507,317,115
Pupil services	87,617,575	86,450,833
Administration	76,944,864	46,624,264
Plant services	56,403,895	56,081,863
Interest on long-term obligations	22,456,798	19,830,059
Other	11,054,052	12,126,543
Total Expenses	**744,044,581**	**728,430,677**
Change in Net Position	**$ 24,995,258**	**$ 45,276,717**

Governmental Activities

As reported in the *Statement of Activities* on page 21, the cost of all of our governmental activities this year was $744,044,581. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $192,750,585 because the cost was paid by those who benefited from the programs ($2,715,977) or by other governments and organizations who subsidized certain programs with grants and contributions ($177,938,439). We paid for the remaining "public benefit" portion of our governmental activities with $395,634,838 in State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, instruction-related programs, pupil services, administration, plant services, and interest on long-term obligations, and all other functional expenses. 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

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	$ 489,567,397	$ 507,317,115	$ 374,351,555	$ 399,226,938
Pupil services	87,617,575	86,450,833	36,351,525	35,729,793
Administration	76,944,864	46,624,264	70,134,072	41,622,686
Plant services	56,403,895	56,081,863	53,587,988	55,563,788
Interest on long-term obligations	22,456,798	19,830,059	22,456,798	19,830,059
Other	11,054,052	12,126,543	6,508,227	4,373,889
Total	**$ 744,044,581**	**$ 728,430,677**	**$ 563,390,165**	**$ 556,347,153**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $229,808,815, which is a decrease of $12,955,450 from last year (Table 4).

Table 4

	Balances and Activity			
	June 30, 2017	Revenues	Expenditures	June 30, 2018
General Fund	$ 125,430,931	$ 655,656,023	$ 674,828,476	$ 106,258,478
Special Reserve Fund for Capital Outlay Projects	13,444,742	17,897,766	18,809,300	12,533,208
Charter School Fund	394,989	4,326,221	3,655,393	1,065,817
Child Development Fund	245,280	7,470,195	7,260,215	455,260
Cafeteria Fund	23,196,581	43,256,892	45,449,936	21,003,537
Deferred Maintenance Fund	2,318,591	7,461,604	4,680,144	5,100,051
Building Fund	4,086,923	47,926	4,134,849	-
Capital Facilities Fund	19,123,237	15,110,533	10,067,662	24,166,108
County School Facilities Fund	27,371,158	3,603,569	1,184,795	29,789,932
Capital Projects Fund for Blended Component Units	604,104	611,135	564,441	650,798
Bond Interest and Redemption Fund	22,542,246	100,949,624	98,880,606	24,611,264
Debt Service Fund for Blended Component Units	4,005,483	30,553,857	30,384,978	4,174,362
Total	**$ 242,764,265**	**$ 886,945,345**	**$ 899,900,795**	**$ 229,808,815**

The primary reasons for changes are:

a. The General Fund showed a decrease of $19.2 million.

b. The Cafeteria Fund showed a decrease of $2.19 million.

c. The Deferred Maintenance Fund showed an increase of $2.8 million.

d. The Capital Facilities Fund showed an increase of $5.0 million.

e. The County School Facilities Fund showed an increase of $2.4 million.

f. The Bond Interest and Redemption Fund showed an increase of $2.1 million.

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 amendment to the budget was adopted on June 26, 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 87.)

The key differences between the original budget, final budget, and actual results is attributable to:

- Re-allocation of categorical program carryover from the prior year, and
- Adjusted revenue and expenditures to project spending amounts and carryovers for current year.
- Settled negotiation with the SAEA bargaining unit for 2017-18 and 2018-19 fiscal years for:
  - an ongoing salary increase of two percent from 2016-17 salary schedules beginning July 1, 2017
  - district's pay of increased medical premium costs for the months of May and June for 2017-2018 fiscal year
  - a salary increase of all extra-service assignments included in Article VII, section 6 upon ratification of the Tentative Agreement between SAEA and the district
- Settled negotiation with the CSEA bargaining unit for 2017-2018 and 2018-2019 fiscal years for:
  - an ongoing salary increase of two percent from 2016-2017 salary schedules beginning July 1, 2017
  - salary schedule adjustments for Head Start and State Preschool teachers for AA and BA degrees
  - a shift differential pay increase of 0.661 cents per hour for all unit members working on an 8-hour shift whose shift ends at 10:30 pm and $1.095 per hour for those unit members assigned to the graveyard shift

As has been the practice of the District, Santa Ana Unified School District does not reallocate categorical program carryover from the prior year until the financial records for the prior year are closed. Consequently, the original budget does not include revenues or expenditures related to categorical carryover, while the final budget and actual results reflects these carryovers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $1,044,641,930 in a broad range of capital assets (net of depreciation), including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of $17,875,717, or 1.7 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	$ 309,026,973	$ 271,178,723
Buildings and improvements	729,844,712	748,748,109
Furniture and equipment	5,770,245	6,839,381
Total	**$ 1,044,641,930**	**$ 1,026,766,213**

This year's additions of $17.9 million (see Note 5) included several completed construction projects for modernization, and new construction.

Several capital projects are planned for the 2018-2019 year. 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 $617,152,275 in long-term obligations versus $612,730,964 last year. The obligations consisted of:

Table 6

	Governmental Activities	
	2018	(as Restated) 2017
General obligation bonds - net (financed with property taxes)	$ 328,271,343	$ 330,638,040
Certificates of participation - net	71,646,289	75,059,674
Qualified zone academy bonds	4,500,000	4,500,000
Construction loan	13,880,775	2,021,163
Career Technical Education facilities program loan	307,216	558,740
Compensated absences	3,392,837	2,946,847
Supplemental early retirement plan	4,840,000	
Claims liability	13,140,448	12,885,320
Net other postemployment benefits (OPEB) liability	177,173,367	184,121,180
Total	**$ 617,152,275**	**$ 612,730,964**

The State limits the amount of general obligation debt that unified school districts can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of $328.3 million is significantly below the statutorily-imposed limit.

Other obligations include certificates of participation, qualified zone academy bonds, compensated absences, other postemployment benefits, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had $653,277,812 in net pension liability versus $578,784,361 last year, an increase of $74,493,451 or 12.9 percent.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

- **8th Annual AP District Honor Roll**
  - SAUSD was named to this distinguished list for our commitment to increasing access to AP for underrepresented students while simultaneously maintaining or increasing the percentage of students earning AP Exam scores of three or higher.
  - SAUSD is one of three districts in California who have received this award multiple years while working with an AP student population of 30 percent or more underrepresented minority students and 30 percent or more low-income students.

- **Villa Fundamental Received AVID National Demonstration Site Award**
  - First SAUSD school to join elite group of schools nationwide who model a school wide approach to college readiness through evidence of student achievement, commitment, and synergy school wide.
- **51 SAUSD schools identified California PBIS Exemplar Schools**
  - Adams Elementary School received Platinum, the highest honor
  - 30 schools received Gold
  - 20 schools received Silver
- **WASC Accreditation**
  - REACH – only accredited community day school in the State
    - Accreditation for 3 years through 2020
  - Chavez
    - Accreditation for 6 years through 2023
  - Valley
    - Accreditation for 6 years through 2023
  - Godinez
    - Waiting for decision but received favorable feedback from visitation report
- **Introduced Improvement Science Project –** Networked Improvement Community in 13 sites.
- **Digital Promise**
  - SAUSD was formally inducted into the League of Innovative Schools as a Digital Promise School District.
  - Invitation only membership that recognizes our innovation and streamlining of our practices to create better results for our students.
- **Turning Red Tape into Red Carpet Awards**
  - SAUSD and High School Inc. were recognized by the Orange County Business Council for opening the doors for business growth and success with placement of student internships, job training, and job placement.

- **Middle College High School Named Signature Program**
  - During the California Coalition Early and Middle Colleges Annual Conference, 80 conference attendees toured the school, observed instruction and student engagement, and listened to a student and teacher panel.
- **Recognition at Project Lead the Way State Conference (PLTW)**
  - As a result of the success and growth the District has had with PLTW, the District was invited to attend the conference and present at both the PLTW General Session and at workshop presentations on best practices as a model district of PLTW.
- **We are SAUSD Leadership Conference – 1st Annual**
  - Held first Intermediate School Conference facilitated by high school ASB students to grow and encouragement new leadership with younger students.
- **Circulos - XQ Super School Grant winner**
  - SAUSD received a $2.5 million grant award to support the development of the Circulos program.
  - We currently have three pilot programs serving over 150 students at Century High School, Chavez High School, and Advanced Learning Academy.
- **Santa Ana High School Won Small School Sweepstakes**
  - Speech and Debate Tournament at Bradley Armstrong University
- **Mendez Fundamental Intermediate School Selected to Participate in NASA project**
  - Selected by the Amateur Radio on the International Space Station (ARISS) Team
  - Students will be able to converse with astronauts on the International Space Station via ham radio.
  - The goal is to engage students in STEM and involve them in activities related to space exploration, amateur radio, communications, and areas of study and career.
- ***Increased the District-wide Graduation Rate from 91.7 percent to 92.7 percent**
  - Graduation rate is now higher than both the County (90.8 percent) and State (83.2 percent) Averages
- ***SAUSD Athletic programs continue to dominate their league play and competed in or won State level competitions.**
  - Century –
    - <u>Varsity Girls Cross Country</u>: 2nd Place Orange League & CIF Qualifier;
    - <u>Varsity Girls Volleyball</u>: Orange League Champions & CIF Qualifier; and
    - <u>Varsity Girls Tennis</u>: 2nd Place Orange League & CIF Qualifier.
  - Godinez –
    - <u>Varsity Boys Cross Country</u>: CIF Qualifier;
    - <u>Varsity Girls Cross Country</u>: CIF Qualifier; and
    - <u>Varsity Football</u>: Orange Coast League Champions & CIF Qualifier.

- Segerstrom –
  - Varsity Girls Cross Country: 2nd Place Golden West League & CIF Qualifier;
  - Varsity Boys Cross Country: 3rd Place Golden West League & CIF Qualifier;
  - Varsity Boys Water Polo: Golden West League Champions;
  - Varsity Girls Tennis: 3rd Place Golden West League (CIF Qualifier);, and
  - Varsity Girls Volleyball: Golden West League Champions.
- Santa Ana –
  - Varsity Girls Cross Country: Golden West League Champions & Santa Ana City Meet Winners;
  - Varsity Boys Cross Country: Division 1 CIF Prelim Qualifiers & Santa Ana City Meet Winners; and
  - Varsity Football: Golden West League Champions (Back to Back) & CIF Semifinalist.
- Valley –
  - Varsity Boys Cross Country: 2nd Place Orange League & CIF Qualifier;
  - Varsity Girls Cross Country: 2nd Place Orange League & CIF Qualifier; and
  - Varsity Football: 2nd Place Orange League & CIF Qualifier.

- ***US News and World Report** rated four of our high schools as some of the top in the nation based on their performance on state assessments and how well they prepare students for college.
  - Segerstrom - Silver
  - Godinez - Silver
  - Saddleback- Silver
  - Middle College – Bronze
- ***6 California 2016-17 Gold Ribbon Schools Awarded**
  - Middle College
  - Mac Arthur
  - Lincoln
  - Franklin
  - Walker
  - Greenville
- ***AVID Showcase at Thorpe**
  - Only showcase in Southern California
- ***Orange County CUE Technology Festival at Mendez Fundamental Intermediate School**
  - Over 500 teachers in attendance at Mendez 2/4/17
  - Held at Mendez for the second year in a row 2/3/18 - Over 700 attendees expected
- ***Recommended and Board adopted Academic Calendar that supports student learning and opportunities**
  - Aligned with colleges for better student articulation with summer higher education and internship opportunities

*denotes accomplishments in 2017 but reported in last evaluation in August 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2018-2019 budget was adopted according to the statute prior to June 30, 2018. The District's revenue and expenditure projections are reflective of the Governor's May Revise Budget Proposal. In considering the District Budget for the 2018-2019 year, the Board of Education and District Management used the following criteria:

Revenue:

1. The District's major source of income is from the Local Control Funding Formula (LCFF). LCFF funding consists of Base, Supplemental, and Concentration grants, as well as Targeted Instructional Improvement Block Grant and Home-to School Transportation add-on programs.
2. Projected declining enrollment of -1,528
3. Projected funded ADA of 46,793.64 to calculate LCFF funding
4. LCFF Gap funding of 100 percent
5. Statutory COLA of 3 percent
6. Unduplicated count of 88.15 percent
7. LCFF Transfers to Deferred Maintenance Fund
8. Increased contribution to Ongoing and Major Maintenance Account
9. One-time Funds for Outstanding Mandate Claims
10. Mandated Block Grant
11. SELPA service billing to charter schools

Expenditures were based on the following:

1. One percent off-schedule pay for certificated, classified, and management
2. Step and column increase
3. Full-year cost of vacant positions
4. Increased work hours of two for Special Education Instructional Assistants from 3.75 hours to 5.75 and one for LVNs from 5 hours to 6 plus medical beneifts
5. Increased salary for AA and BA degrees for Head Start and State Preschool teachers
6. Increased work year to 10.5 months for Elementary and Intermediate Library Media Technicians
7. A salary range shift of Computer Tech to Computer Tech II from grade 28 to 33
8. A salary range shift of HVAC Mechanic II from grade 36 to 40
9. Increased costs for STRS/PERS and Health and Welfare
10. Increased Special Education costs
11. Removal of one-time expenditures
12. Removal of Educator Effectiveness Grant which was expired as of June 30, 2018
13. Removal of carryover, however, it will be budgeted when the actual amounts are known
14. Removal of interfund transfers to Special Reserve Fund for Postemployment Benefits and a reduction of interfund transfers to 2007 COP due to refinancing

Staffing ratios:

	Staffing Ratio	Enrollment
Transitional Kindergarten	29:1	760
Kindergarten	29:1	3,069
Grade one	29:1	3,431
Grade two	29:1	3,293
Grade three	29:1	3,362
Grades four through five	29:1	7,267
Grades six through eight	35:1	11,140
Grades nine through twelve	36:1	14,476

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Santa Ana Unified School District, 1601 East Chestnut Avenue, Santa Ana, California, 92701-6322.

SANTA ANA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 311,686,158
Receivables	30,584,777
Prepaid expenses	88,412
Stores inventories	1,546,801
Capital Assets	
Land and construction in process	309,026,973
Other capital assets	975,452,954
Less: accumulated depreciation	(239,837,997)
Total Capital Assets	1,044,641,930
Total Assets	1,388,548,078
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	49,622,006
Deferred outflows of resources related to pensions	200,608,412
Total Deferred Outflows of Resources	250,230,418
LIABILITIES	
Accounts payable	59,050,596
Accrued interest payable	2,673,083
Unearned revenue	17,820,527
Long-Term Obligations:	
Current portion of long-term obligations other than pensions	23,266,204
Noncurrent portion of long-term obligations other than pensions	593,886,071
Total Long-Term Obligations	617,152,275
Aggregate net pension liability	653,277,812
Total Liabilities	1,349,974,293
DEFERRED INFLOWS OF RESOURCES	
Deferred charge on refunding	1,054,397
Deferred inflows of resources related to pensions	41,492,888
Total Deferred Inflows of Resources	42,547,285
NET POSITION	
Net investment in capital assets	708,320,263
Restricted for:	
Debt service	26,112,543
Capital projects	58,544,435
Educational programs	29,542,169
Other activities	44,340,674
Unrestricted	(620,603,166)
Total Net Position	$ 246,256,918

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

SANTA ANA UNIFIED 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	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 419,323,545	$ 986,175	$ 95,683,342	$ 3,603,570	$ (319,050,458)
Instruction-related activities:					
Supervision of instruction	27,116,821	44,952	11,348,017	-	(15,723,852)
Instructional library, media, and technology	4,129,078	79	336,716	-	(3,792,283)
School site administration	38,997,953	13,366	3,199,625	-	(35,784,962)
Pupil services:					
Home-to-school transportation	12,337,650	-	-	-	(12,337,650)
Food services	41,130,965	893,354	39,411,257	-	(826,354)
All other pupil services	34,148,960	91,015	10,870,424	-	(23,187,521)
Administration:					
Data processing	5,525,496	3,214	6,425	-	(5,515,857)
All other administration	71,419,368	46,609	6,754,544	-	(64,618,215)
Plant services	56,403,895	6,526	2,809,381	-	(53,587,988)
Ancillary services	6,130,701	1,098	153,521	-	(5,976,082)
Community services	142,747	-	-	-	(142,747)
Enterprise services	231,882	5,926	233,857	-	7,901
Interest on long-term obligations	22,456,798	-	-	-	(22,456,798)
Other outgo	4,548,722	623,663	3,527,760	-	(397,299)
Total Governmental Activities	$ 744,044,581	$ 2,715,977	$ 174,334,869	$ 3,603,570	(563,390,165)

General revenues and subventions:	
Property taxes, levied for general purposes	167,802,388
Property taxes, levied for debt service	20,828,197
Taxes levied for other specific purposes	4,120,000
Federal and State aid not restricted to specific purposes	372,146,468
Interest and investment earnings	2,780,842
Miscellaneous	20,707,528
Subtotal, General Revenues	588,385,423
Change in Net Position	24,995,258
Net Position - Beginning, as Restated	221,261,660
Net Position - Ending	$ 246,256,918

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

SANTA ANA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	$ 147,842,655	$ 23,935,763	$ 108,149,318	$ 279,927,736
Receivables	21,005,764	315,462	8,282,081	29,603,307
Due from other funds	5,981,409	103,394	5,967,799	12,052,602
Prepaid expenditures	87,653	-	759	88,412
Stores inventories	804,883	-	741,918	1,546,801
Total Assets	$ 175,722,364	$ 24,354,619	$ 123,141,875	$ 323,218,858
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 49,340,493	$ 389,671	$ 5,410,210	$ 55,140,374
Due to other funds	11,297,569	2,437,037	6,714,536	20,449,142
Unearned revenue	8,825,824	8,994,703	-	17,820,527
Total Liabilities	69,463,886	11,821,411	12,124,746	93,410,043
Fund Balances:				
Nonspendable	1,042,536	-	748,625	1,791,161
Restricted	28,021,092	4,588,395	105,168,453	137,777,940
Committed	45,564,822	-	5,100,051	50,664,873
Assigned	10,921,627	7,944,813	-	18,866,440
Unassigned	20,708,401	-	-	20,708,401
Total Fund Balances	106,258,478	12,533,208	111,017,129	229,808,815
Total Liabilities and Fund Balances	$ 175,722,364	$ 24,354,619	$ 123,141,875	$ 323,218,858

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

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		**$ 229,808,815**
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	$ 1,284,479,927	
Accumulated depreciation is	(239,837,997)	
Net Capital Assets		1,044,641,930
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.		(2,673,083)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		24,085,762
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.		(1,054,397)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	52,825,320	
Net change in proportionate share of net pension liability	19,308,149	
Difference between projected and actual earnings on pension plan investments	6,265,505	
Differences between expected and actual experience in the measurement of the total pension liability	8,152,867	
Changes of assumptions	114,056,571	
Total Deferred Outflows of Resources Related to Pensions		200,608,412

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

SANTA ANA UNIFIED 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 pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	$ (18,518,942)	
Difference between projected and actual earnings on pension plan investments	(12,587,252)	
Differences between expected and actual experience in the measurement of the total pension liability	(8,252,891)	
Changes of assumptions	(2,133,803)	
Total Deferred Inflows of Resources Related to Pensions		$ (41,492,888)
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to the measurement date.		49,622,006
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(653,277,812)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	247,026,074	
Premium on issuance of bonds	16,624,905	
Certificates of participation	51,437,081	
Premium on issuance of certificates	2,449,233	
Qualified zone academy bonds	4,500,000	
Compensated absences (vacations)	3,392,837	
Supplemental early retirement plan (SERP)	4,840,000	
Construction loan	13,880,775	
Career Technical Education facilities program loan	307,216	
Net other postemployment benefits (OPEB) liability	177,173,367	
In addition, the District has issued 'capital appreciation' general obligation bonds and certificates of participation. The accretion of interest on those bonds and certificates to date is the following:	82,380,339	
Total Long-Term Obligations		(604,011,827)
Total Net Position - Governmental Activities		**$ 246,256,918**

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

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	General Fund	Special Reserve Fund for Capital Outlay Projects
REVENUES		
Local Control Funding Formula	$ 510,195,822	$ -
Federal sources	49,351,981	-
Other State sources	88,691,445	3,131,806
Other local sources	7,416,775	554,685
Total Revenues	655,656,023	3,686,491
EXPENDITURES		
Current		
Instruction	413,960,619	-
Instruction-related activities:		
Supervision of instruction	26,551,222	-
Instructional library, media, and technology	4,314,940	-
School site administration	40,091,212	-
Pupil services:		
Home-to-school transportation	12,359,877	-
Food services	1,416,178	-
All other pupil services	33,920,396	-
Administration:		
Data processing	5,933,259	-
All other administration	62,932,376	-
Plant services	53,218,618	428,059
Ancillary services	7,275,113	-
Community services	152,507	-
Other outgo	5,067,718	-
Enterprise services	24,941	-
Facility acquisition and construction	1,707,034	15,610,266
Debt service		
Principal	251,524	-
Interest and other	5,613	77,625
Total Expenditures	669,183,147	16,115,950
Excess (Deficiency) of Revenues Over Expenditures	(13,527,124)	(12,429,459)
Other Financing Sources (Uses)		
Transfers in	-	1,232,438
Other sources - proceeds from issuance of general obligation bonds	-	-
Other sources - proceeds from issuance of certificates of participation	-	-
Other sources - proceeds from construction loan	-	12,978,837
Transfers out	(5,645,329)	(2,693,350)
Other uses - payment to refunded bond escrow agent	-	-
Net Financing Sources (Uses)	(5,645,329)	11,517,925
NET CHANGE IN FUND BALANCES	(19,172,453)	(911,534)
Fund Balances - Beginning	125,430,931	13,444,742
Fund Balances - Ending	$ 106,258,478	$ 12,533,208

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

Non-Major Governmental Funds	Total Governmental Funds
$ 10,714,049	$ 520,909,871
39,597,740	88,949,721
13,668,000	105,491,251
40,186,878	48,158,338
104,166,667	763,509,181
7,924,186	421,884,805
623,628	27,174,850
-	4,314,940
792,037	40,883,249
-	12,359,877
42,733,394	44,149,572
495,429	34,415,825
-	5,933,259
3,178,268	66,110,644
4,532,813	58,179,490
6,074	7,281,187
-	152,507
-	5,067,718
255,949	280,890
14,547,201	31,864,501
16,524,225	16,775,749
13,365,239	13,448,477
104,978,443	790,277,540
(811,776)	(26,768,359)
9,012,697	10,245,135
78,576,284	78,576,284
21,635,908	21,635,908
-	12,978,837
(1,906,456)	(10,245,135)
(99,378,120)	(99,378,120)
7,940,313	13,812,909
7,128,537	(12,955,450)
103,888,592	242,764,265
$ 111,017,129	$ 229,808,815

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		**$ (12,955,450)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	$ 37,848,250	
Depreciation expense	(19,972,533)	
Net Expense Adjustment		17,875,717
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits paid were less than the amounts earned by $4,840,000. Vacation earned was more than the amounts used by $445,990.		(5,285,990)
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.		(28,164,320)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		56,569,819
Proceeds received from certificates of participation refunding bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		(19,165,000)
Proceeds received from general obligation refunding bonds is a revenue, in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		(66,985,000)
Proceeds received from construction loan is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		(12,978,837)

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

SANTA ANA UNIFIED 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

Governmental funds report the effect of premiums and deferred charges on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.		
Premium on issuance	$ (14,062,192)	
Deferred charge on refunding	(1,065,365)	
Combined Adjustment		$ (15,127,557)
Under the modified basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable 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	3,651,486	
Amortization of deferred charge on refunding	(463,553)	
Combined Adjustment		3,187,933
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	87,260,000	
Certificates of participation	25,640,000	
Construction loan	1,119,225	
CTE facilities program loan	251,524	
Combined Adjustment		114,270,749
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by $1,311,443, and second, $10,559,212 of additional interest was accreted on the District's capital appreciation general obligation bonds and certificates of participation.		(9,247,769)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The net change of the Internal Service Fund is reported with governmental activities.		3,000,963
Change in Net Position of Governmental Activities		**$ 24,995,258**

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

SANTA ANA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$	31,758,422
Receivables		981,470
Due from other funds		8,396,540
Total Current Assets		41,136,432
LIABILITIES		
Current Liabilities		
Accounts payable		3,910,222
Current portion of long-term obligations		3,859,848
Total Current Liabilities		7,770,070
Noncurrent Liabilities		
Noncurrent portion of long-term obligations		9,280,600
NET POSITION		
Restricted		24,085,762
Total Net Position	$	24,085,762

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

SANTA ANA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	$ 23,029,819
OPERATING EXPENSES	
Payroll costs	12,036,292
Supplies and materials	462,123
Facility rental	85,394
Other operating cost	7,904,644
Total Operating Expenses	20,488,453
Operating Income	2,541,366
NONOPERATING REVENUES	
Interest income	459,597
Change in Net Position	3,000,963
Total Net Position - Beginning	21,084,799
Total Net Position - Ending	$ 24,085,762

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

SANTA ANA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 24,382,839
Other operating cash receipts	183,186
Cash payments to other suppliers of goods or services	2,499,924
Cash payments to employees for services	(20,546,428)
Other operating cash payments	(7,649,516)
Net Cash Used by Operating Activities	(1,129,995)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	459,597
Net decrease in cash and cash equivalents	(670,398)
Cash and cash equivalents - Beginning	32,428,820
Cash and cash equivalents - Ending	$ 31,758,422
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating income	$ 2,541,366
Changes in assets and liabilities:	
Receivables	(165,448)
Due from other funds	1,701,654
Prepaid expenditures	148,749
Accounts payable	2,898,692
Due to other fund	(8,510,136)
Claims liability	255,128
NET CASH USED BY OPERATING ACTIVITIES	$ (1,129,995)

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

SANTA ANA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

		Agency Funds
ASSETS		
Deposits and investments	$	3,337,231
LIABILITIES		
Due to student groups	$	1,850,357
Due to bondholders		1,486,874
Total Liabilities	$	3,337,231

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Ana Unified 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-12 as mandated by the State and/or Federal agencies. The District operates 36 elementary schools, nine middle schools, six high schools, one charter school, ten special schools/programs, and three alternative high schools.

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 Santa Ana Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

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

The Santa Ana Unified School District Public Facilities Corporation (the Corporation) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under various lease-purchase agreements recorded in long-term obligations.

The Corporation's financial activity is presented in the financial statements as the Capital Project Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Certificates of participation and qualified zone academy bonds issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

On August 24, 2004, the District voted to establish Community Facilities District (CFD) No. 2004-1 and to authorize the levy of special taxes. The purpose of the agreement is to provide for the issuance of certain debt obligations to provide and finance the design, acquisition, and construction of certain public facilities, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The CFD is authorized to levy special taxes on parcels of taxable property within the CFD to pay the principal and interest on the bonds. The CFD financial activity is presented in the Agency Fund. Debt instruments issued by the CFD do not represent liabilities of the District or component unit and is not included in the District-wide financial statements.

Other Related Entities

Charter School The District has approved Charters for Orange County Educational Arts Academy (OCEAA), Edward B. Cole Senior Academy of Santa Ana, El Sol Science and Arts Academy of Santa Ana, NOVA Academy, Orange County High School of the Arts, and Advanced Learning Academy pursuant to *Education Code* Section 47605. The Charters for Orange County Educational Arts Academy (OCEAA), Edward B. Cole Senior Academy of Santa Ana, El Sol Science and Arts Academy of Santa Ana, NOVA Academy, Orange County High School of the Arts are direct-funded and are not considered component units of the District. The Charter Schools are independent of the District, but subject to periodic charter renewal by the District. The Advanced Learning Academy is operated by the District, and its financial activity is presented in the Charter School Fund.

Basis of Presentation Fund Accounting

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

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

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 special revenue funds in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Other 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 function effectively as extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of $310,897.

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

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.

Charter School Fund The Charter School Fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing Districts General Fund.

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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).

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.

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition lA), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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 for Blended Component Units The Debt Service Fund for Blended Component Units fund is used for the accumulation of resources for and the retirement of principal and interest on debt issued by entities that are considered blended component units of the District under GAAP.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a property and liability, dental, vision, and workers' compensation self-insurance fund that is accounted for in an internal service fund.

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.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. 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 student body activities (ASB) and receipt of special taxes and assessments used to pay principal and interest on non-obligatory bonds of the financial reporting entity.

Basis of Accounting - Measurement Focus

Government - Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues of the activities of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program 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 position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from the cafeteria special revenue fund and the internal service fund, and the restrictions on their use.

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

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

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. 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 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. 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 in the entity-wide statements.

Cash and Cash Equivalents

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

Investments

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

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefit period. The District has chosen to report the expenditures when incurred.

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 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. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 25 to 50 years; furniture and equipment, 15 to 20; years, and vehicles, eight years.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. 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 and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

Minimum Fund Balance Policy

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

Stabilization Arrangement

In fiscal year 2010-2011, the governing board adopted a resolution for stabilization arrangements. Under the resolution, a portion of the fund balance of the General Fund is committed for stabilization arrangements, such as might be needed in emergency situations or when revenue shortages or budgetary imbalances occur. The resolution states that, at fiscal year-end, an amount approximately equal to, but not less than, seven percent of the annual operating expenditures of the General Fund is to be committed for use in covering catastrophic losses, including natural and man-made disasters, insurance loss reserves, and limited operating expenses in a period of severe economic uncertainty. At June 30, 2018, $45,564,822 of the fund balance for the General Fund is reported as committed for economic stabilization. The resolution recognizes that under extreme conditions, the use of resources may result in the committed fund balance amount dropping below the established threshold. Such amounts are required to be reinstated by the end of the subsequent fiscal year.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $158,539,821 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Orange 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	$	311,686,158
Fiduciary funds		3,337,231
Total Deposits and Investments	$	315,023,389

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

Cash on hand and in banks	$	3,715,367
Cash in revolving		855,948
Investments		310,452,074
Total Deposits and Investments	$	315,023,389

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

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds and Notes	N/A	None	None
Registered State Bonds and Notes	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
U.S. Agency Securities	N/A	None	None
Farmer Credit System Bonds and Notes	N/A	None	None
Farmers Home Administration Certificates	N/A	None	None
Federal Housing Administration Debentures	N/A	None	None
Federal National Mortgage Association Obligations	N/A	None	None
Federtal Home Loan Bank System Obligations	N/A	None	None
Federal Home Loan Mortgage Corporation Obligations	N/A	None	None
Student Loan Marketing Association Obligations	N/A	None	None
Resolution Funding Corporation Obligations	N/A	None	None
General Services Administration Certificates	N/A	None	None
Government National Mortgage Association Obligations	N/A	None	None
U.S. Maritime Administration Obligations	N/A	None	None
U.S. Department of Housing and Urban Development Bonds and Notes	N/A	None	None
Money Market Funds	N/A	None	None
Deposit Accounts, Time Certificates of Deposit, Negotiable Certificates of Deposit	180 days	None	None
Commercial Paper	270 days	None	None
Federal Funds and Bankers Acceptance	365 days	None	None
Repurchase Agreement	30 days	None	None
Investment Agreement	N/A	None	None
Prefunded Municipal Bonds	N/A	None	None
State Investment Fund	N/A	None	None

Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Reported Amount	Average Maturity in Days/ Maturity Date
Orange County Treasury Investment Pool	$ 306,301,218	302 days
Dreyfus Institutional Treasury & Agency Cash Advantage Fund	131,686	4 days
Invesco Government and Agency Money Market Fund	1,826	28 days
Natixis Commercial Paper	4,017,344	10/29/18
Total	$ 310,452,074	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the *California Government Code*, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

The investment in the Orange County Treasury Investment Pool is not required to rated, nor has it been rated as of June 30, 2018. The investment in Dreyfus Institutional Treasury & Agency Cash Advantage Fund, Invesco Government and Agency Money Market Fund, and Natixis Commercial Paper have been rated Aaa-mf, Aaa-mf, and P-1, respectively, by Moody's rating service as of June 30, 2018.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of $2,371,549 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in Natixis Commercial Paper of $4,017,344, the District has a custodial credit risk exposure of $4,017,344 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

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

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
Orange County Treasury Investment Pool	$ 306,301,218	$ -	$ 306,301,218
Dreyfus Institutional Treasury & Agency Cash Advantage Fund	131,686	131,686	-
Invesco Government and Agency Money Market Fund	1,826	1,826	-
BNP Paribas Fortis New	4,017,344	4,017,344	-
Total	$ 310,452,074	$ 4,150,856	$ 306,301,218

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

NOTE 4 - RECEIVABLES

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	$ 11,156,901	$ -	$ 5,261,782	$ -	$ 16,418,683
State Government					
Categorical aid	2,327,344	-	1,677,746	-	4,005,090
Lottery	1,790,806	-	35,581	-	1,826,387
Local Government					
Interest	167,022	22,609	163,760	51,971	405,362
City of Santa Ana	-	-	1,006,810	-	1,006,810
Other LEA	1,223,324	-	-	-	1,223,324
Other Local Sources	4,340,367	292,853	136,402	929,499	5,699,121
Total	$ 21,005,764	$ 315,462	$ 8,282,081	$ 981,470	$ 30,584,777

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 136,172,405	$ -	$ -	$ 136,172,405
Construction in progress	135,006,318	37,848,250	-	172,854,568
Total Capital Assets Not Being Depreciated	271,178,723	37,848,250	-	309,026,973
Capital Assets Being Depreciated:				
Land improvements	24,920,609	-	-	24,920,609
Buildings and improvements	936,423,135	-	-	936,423,135
Furniture and equipment	14,109,210	-	-	14,109,210
Total Capital Assets Being Depreciated	975,452,954	-	-	975,452,954
Total Capital Assets	1,246,631,677	37,848,250	-	1,284,479,927
Less Accumulated Depreciation:				
Land improvements	19,605,488	518,830	-	20,124,318
Buildings and improvements	192,990,147	18,384,567	-	211,374,714
Furniture and equipment	7,269,829	1,069,136	-	8,338,965
Total Accumulated Depreciation	219,865,464	19,972,533	-	239,837,997
Governmental Activities Capital Assets, Net	$ 1,026,766,213	$ 17,875,717	$ -	$ 1,044,641,930

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 14,460,114
Supervision of instruction	958,682
All other pupil services	1,098,489
All other administration	1,378,105
Plant services	2,077,143
Total Depreciation Expenses Governmental Activities	$ 19,972,533

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

	Due From			
Due To	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
General Fund	$ -	$ 133,151	$ 5,848,258	$ 5,981,409
Special Reserve Fund for Capital Outlay Projects	40,000	-	63,394	103,394
Non-Major Governmental Funds	3,271,190	2,303,886	392,723	5,967,799
Internal Service Fund	7,986,379	-	410,161	8,396,540
Total	$ 11,297,569	$ 2,437,037	$ 6,714,536	$ 20,449,142

A balance of $694,162 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from the reimbursement of operating costs.

A balance of $371,973 due to the General Fund from the Charter School Non-Major Governmental Fund resulted from the reimbursement of operating costs.

A balance of $2,265,661 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from indirect costs and reimbursement of operating costs.

A balance of $9,427 due to the General Fund from the Deferred Maintenance Non-Major Governmental Fund resulted from reimbursement of deferred maintenance projects.

A balance of $575,758 due to the General Fund from the Debt Service Non-Major Governmental Fund for Blended Component Units resulted from reimbursement of excess contributions for the certificate of participation debt service payments.

A balance of $975,075 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from allocation of in-lieu property taxes.

A balance of $297,785 due to the Charter School Non-Major Governmental Fund from the General Fund resulted from allocation of various categorical funds.

A balance of $1,979,326 due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund is for contributions for the artificial project at the Early Learning Plans Parent Center.

The balance of $392,723 due to the County School Facilities Non-Major Governmental Fund from the Building Non-Major Governmental Fund resulted from reimbursement of project costs.

A balance of $4,877,785 due to the Internal Service Fund from the General Fund resulted from insurance premiums.

A balance of $3,108,594 due to the Internal Service Fund from the General Fund resulted from a temporary loan.

All remaining balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

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

	Transfer From			
Transfer To	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Fund	Total
Special Reserve Fund for Capital Outlay Projects	$ 1,232,438	$ -	$ -	$ 1,232,438
Non-Major Governmental Funds	4,412,891	2,693,350	1,906,456	9,012,697
Total	$ 5,645,329	$ 2,693,350	$ 1,906,456	$ 10,245,135

The General Fund transferred to the Charter School Non-Major Governmental Fund for charter school expansion.	$ 215,482
The General Fund transferred to the Charter School Non-Major Governmental Fund for allocation of various categorical funds.	297,785
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for savings resulting from the solar energy project.	1,232,438
The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments.	3,899,624
The Special Reserve Fund for Capital Outlay Projects transferred to the Capital Facilities Non-Major Governmental Fund for reimbursement of project costs.	1,256,831
The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for future debt service payments.	1,436,519
The Capital Facilities Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for the reimbursement of interest payment on lease.	1,351,088
The Capital Project Non-Major Governmental Fund for Blended Component Units transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units the remaining balance of the projects fund.	555,368
Total	$ 10,245,135

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Salaries and benefits	$ 18,517,574	$ 33	$ 1,473,398	$ 3,565,390	$ 23,556,395
LCFF apportionment	10,960,354	-	12,132	-	10,972,486
Books and supplies	10,870,834	-	1,741,781	344	12,612,959
Services and other operating payables	6,399,000	816	393,539	342,519	7,135,874
Construction	1,104,597	387,965	1,729,858	-	3,222,420
Due to other LEAs	1,470,185	-	-	-	1,470,185
Vendor payables	17,949	857	59,502	1,969	80,277
Total	$ 49,340,493	$ 389,671	$ 5,410,210	$ 3,910,222	$ 59,050,596

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Special Reserve Fund for Capital Outlay Projects	Total Governmental Activities
Federal financial assistance	$ 22,585	$ -	$ 22,585
State categorical aid	8,420,150	8,994,703	17,414,853
Other local	383,089	-	383,089
Total	$ 8,825,824	$ 8,994,703	$ 17,820,527

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(as Restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	$ 323,042,817	$ 75,863,621	$ 87,260,000	$ 311,646,438	$ 13,005,000
Premium on issuance	7,595,223	11,591,284	2,561,602	16,624,905	-
Certificates of participation	73,991,465	20,845,591	25,640,000	69,197,056	4,080,000
Premium on issuance	1,068,209	2,470,908	1,089,884	2,449,233	-
2005 Qualified zone academy bonds	4,500,000	-	-	4,500,000	-
Construction loan	2,021,163	12,978,837	1,119,225	13,880,775	1,199,748
Career Technical Education facilities program loan	558,740	-	251,524	307,216	153,608
Compensated absences	2,946,847	445,990	-	3,392,837	-
Supplemental early retirement plan (SERP)	-	4,840,000	-	4,840,000	968,000
Claims liability	12,885,320	4,114,976	3,859,848	13,140,448	3,859,848
Net other postemployment benefits (OPEB) liability	184,121,180	14,907,495	21,855,308	177,173,367	-
	$ 612,730,964	$ 148,058,702	$ 143,637,391	$ 617,152,275	$ 23,266,204

Payments made on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for the certificates of participation are made by the Debt Service Fund for Blended Component Units. Construction loan will be paid by the Special Reserve Fund for Capital Outlay of Project. Career Technical Education facilities program loan will be paid by the General Fund. The accrued vacation will be paid by the fund for which the employees worked. The supplemental early retirement plan (SERP) will be paid by the General Fund. The claims liability is paid from the Internal Service Fund. Net other postemployment benefits (OPEB) liability are generally paid by the General Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Accreted	Redeemed	Bonds Outstanding June 30, 2018
10/30/02	08/01/32	2.68-5.53%	$ 50,828,156	$ 43,216,322	$ -	$ 2,257,578	$ 3,515,000	$ 41,958,900
08/06/08	08/01/33	3.50-5.51%	99,997,856	94,949,138	-	1,451,313	78,675,000	17,725,451
11/12/09	08/01/29	3.00-4.25%	49,775,000	36,810,000	-	-	2,210,000	34,600,000
11/20/09	08/01/47	6.54-7.337%	34,861,114	59,233,266	-	-	-	59,233,266
11/20/09	09/15/26	5.91%	19,240,000	19,240,000	-	4,597,976	-	23,837,976
12/02/10	08/01/20	3.00-5.00%	8,591,011	6,104,091	-	571,754	1,465,000	5,210,845
12/02/10	08/01/28	6.45%	17,535,000	17,535,000	-	-	-	17,535,000
12/02/10	08/01/41	6.80-7.10%	19,775,000	19,775,000	-	-	-	19,775,000
12/02/10	08/01/22	2.50-5.00%	12,290,000	7,660,000	-	-	1,150,000	6,510,000
09/19/12	08/01/32	2.00-3.40%	19,720,000	18,520,000	-	-	245,000	18,275,000
04/18/18	08/01/33	3.00-5.00%	66,985,000	-	66,985,000	-	-	66,985,000
				$ 323,042,817	$ 66,985,000	$ 8,878,621	$ 87,260,000	$ 311,646,438

1999 General Obligation Bonds, Series 2002B

On October 30, 2002, the District issued capital appreciation bonds in the amount of $50,828,156 (accreting to $110,565,000 at maturity) in order to finance the acquisition, construction, and improvement of school sites and facilities, including relieving overcrowding, improving student safety, repairing and renovating schools, and replacing portables with permanent classrooms. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields ranging from 2.68 to 5.53 percent. At June 30, 2018, the principal balance outstanding was $41,958,900 (including accreted interest to date).

2008 General Obligation Bonds, Series A

On August 6, 2008, the District issued $94,235,000 in current interest bonds and $5,762,856 in capital appreciation bonds (accreting to $22,700,000 at maturity) with an original premium of $6,022,280. The bonds were issued to finance the acquisition, construction, and improvement of school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on August 1, 2033, with interest rate yields ranging from 3.50 to 5.51 percent. At June 30, 2018, the principal balance outstanding was $17,725,451 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2018, was $1,686,240.

2009 General Obligation Refunding Bonds

On November 12, 2009, the District issued $49,775,000 in current interest bonds. The bonds were issued for the purpose of a partial refunding of $46,220,000 of the District's outstanding Election of 1999, General Obligation Bond, Series 2000. The bonds have a final maturity to occur on August 1, 2029, with interest rate yields ranging from 3.0 to 4.25 percent. At June 30, 2018, the principal balance outstanding was $34,600,000.

2008 General Obligation Bonds, Series B

On November 20, 2009, the District issued capital appreciation bonds in the amount of $34,861,114 (accreting to $418,255,000 at maturity) with an original premium of $1,809,422. The bonds were issued to finance the acquisition, construction, and improvement of the school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on August 1, 2047, with interest rate yields ranging from 6.54 to 7.337 percent. At June 30, 2018, the principal balance outstanding was $59,233,266 (including accreted interest to date). Unamortized premium received on the bonds as of June 30, 2018, was $1,404,684.

2008 General Obligation Bonds, Series C

On November 20, 2009, the District issued $19,240,000 in qualified school construction bonds under the provisions of the American Recovery and Reinvestment Act of 2009. The bonds were issued to finance the acquisition, construction, and improvement of the school sites and facilities, improving student safety, repairing and renovating schools, and replacing portables with modern classrooms. The bonds have a final maturity to occur on September 15, 2026, with an interest rate yield of 5.91 percent. At June 30, 2018, the principal balance outstanding was $23,837,976.

2008 General Obligation Bonds, Series D, Series E, Series F

On December 2, 2010, the District issued $6,445,000 in current interest bonds and $2,146,011 (accreting to $5,875,000 at maturity) in capital appreciation bonds with Series D. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2020, with interest rate yields ranging from 3.00 to 5.00 percent. At June 30, 2018, the principal balance outstanding was $5,210,845 (including accreted interest to date).

On December 2, 2010, the District issued $17,535,000 in current interest bonds with Series F. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2028, with an interest rate yield of 6.45 percent. The District has designated the Series F Bonds as "qualified school construction bonds" under Section 54F of the Internal Revenue Code of 1986, as amended, making the District eligible for cash subsidy payments from the United States Treasury. At June 30, 2018, the principal balance outstanding was $17,535,000. Unamortized premium received on the bonds as of June 30, 2018 was $1,791,412.

On December 2, 2010, the District issued $19,775,000 in current interest bonds with Series E. The bonds were issued to finance new construction and additions to and modernization of school facilities for the District. The bonds have a final maturity to occur on August 1, 2041, with interest rate yields ranging from 6.80 to 7.10 percent. The District has designated the Series E Bonds as "Build America Bonds" under Section 55AA of the Internal Revenue Code of 1986, as amended, making the District eligible for cash subsidy payments from the United States Treasury. At June 30, 2018, the principal balance outstanding was $19,775,000.

2010 General Obligation Refunding Bonds

On December 2, 2010, the District issued $12,290,000 in current interest bonds. The bonds were issued for the purpose of a partial refunding of $12,300,000 of the District's outstanding Election of 1999, General Obligation Bonds, Series 2002. The bonds have a final maturity to occur on August 1, 2022, with interest rate yields ranging from 2.50 to 5.00 percent. At June 30, 2018, the principal balance outstanding was $6,510,000. Unamortized premium received on the bonds as of June 30, 2018 was $344,473.

2012 General Obligation Refunding Bonds

On September 19, 2012, the District issued $19,720,000 in current interest bonds. The bonds were issued for the purpose of refunding $19,050,000 of the District's outstanding 1999 General Obligation Bonds, Series 2002. The bonds have a final maturity to occur on August 1, 2032, with interest rate yields ranging from 2.00 to 3.40 percent. At June 30, 2018, the principal balance outstanding was $18,275,000.

2018 General Obligation Refunding Bonds

On April 18, 2018, the District issued $66,985,000 in current interest bonds. The bonds were issued for the purpose of a partial refunding of $94,235,000 of the District's outstanding Election of 2008, General Obligation Bonds, Series A. The refunding resulted in a cumulative cash flow savings of $22,787,783 over the life of the new debt and an economic gain of $17,774,762 based on the difference between present value of the existing debt service requirements and the new debt service requirements discounted at 2.59 percent. The bonds have a final maturity to occur on August 1, 2033, with interest rate yields ranging from 3.00 to 5.00 percent. At June 30, 2018, the principal balance outstanding was $66,985,000. Unamortized premium received on the bonds as of June 30, 2018 was $11,398,096.

Debt Service Requirements to Maturity

The bonds mature through 2048 as follows:

Fiscal Year	Principal Including Accreted Interest	Accreted Interest	Current Interest at Maturity	Total
2019	$ 12,919,233	$ 85,767	$ 7,336,319	$ 20,341,319
2020	11,698,503	881,497	8,001,284	20,581,284
2021	11,599,132	1,585,868	7,839,434	21,024,434
2022	11,755,357	1,679,643	7,664,501	21,099,501
2023	11,918,813	2,201,187	7,475,275	21,595,275
2024-2028	86,451,989	9,793,011	33,030,361	129,275,361
2029-2033	84,267,268	26,412,732	15,216,871	125,896,871
2034-2038	34,443,030	58,746,970	4,317,805	97,507,805
2039-2043	27,834,142	145,815,858	1,426,760	175,076,760
2044-2048	18,758,971	138,416,029	-	157,175,000
Total	$ 311,646,438	$ 385,618,562	$ 92,308,610	$ 789,573,610

Certificates of Participation

The outstanding certificates of participation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018
10/1/99	04/01/36	3.60-6.25%	$ 17,691,700	$ 26,856,465	$ -	$ 1,680,591	$ 2,220,000	$ 26,317,056
5/1/07	04/01/37	3.56-4.41%	29,725,000	22,155,000	-	-	22,155,000	-
12/5/12	12/01/35	4.25-5.20%	30,000,000	24,980,000	-	-	1,265,000	23,715,000
4/25/18	04/01/37	3.50-5.00%	19,165,000	-	19,165,000	-	-	19,165,000
				$ 73,991,465	$ 19,165,000	$ 1,680,591	$ 25,640,000	$ 69,197,056

1999 Certificates of Participation

On October 1, 1999, the Corporation issued the 1999 Certificates of Participation in the amount of $17,691,700 with interest rate yields ranging from 3.60 to 6.25 percent. The certificates have a final maturity to occur on April 1, 2036. These certificates were issued for the construction of two elementary schools. At June 30, 2018, the principal balance outstanding was $26,317,056, including accreted interest on the capital appreciation certificates.

2007 Certificates of Participation

On May 1, 2007, the Corporation issued the 2007 Certificates of Participation in the amount of $29,725,000 with interest rate yields ranging from 3.56 to 4.41 percent. The certificates have a final maturity to occur on April 1, 2037. The certificates were issued for the acquisition and construction of certain infrastructure improvements, as well as to refinance the Energy Savings Project and the 1998 and 1999 Financing Projects. At June 30, 2018, the 2007 Certificate of Participation were fully defeased.

2012 Certificates of Participation

On December 5, 2012, the Corporation issued the 2012 Certificates of Participation in the amount of $30,000,000, pursuant to a lease agreement with the District and the Santa Ana Unified School District Public Facilities Corporation, with interest rate yields ranging from 4.25 to 5.20 percent. The certificates have a final maturity to occur on December 1, 2035. The certificates were issued to implement certain District's facilities projects. At June 30, 2018, the principal balance outstanding was $23,715,000.

2018 Refunding Certificates of Participation

On April 25, 2018, the Corporation issued the 2018 Refunding Certificates of Participation in the amount of $19,165,000 with interest rate yields ranging from 3.5 to 5.0 percent. The certificates have a have a final maturity to occur on April 1, 2037. The certificates were issued to refund the 2007 Certificates of Participation. The refunding resulted in a cumulative cash flow savings of $22,787,783 over the life of the new debt and an economic gain of $17,774,762 based on the difference between present value of the existing debt service requirements and the new debt service requirements discounted at 2.59 percent. At June 30, 2018, the principal balance outstanding was $19,165,000. Unamortized premium received on the certificates of participation as of June 30, 2018 was $2,449,233.

Debt Service Requirements to Maturity

The certificates of participation mature through 2037 as follows:

Year Ending June 30,	Principal Including Accreted Interest	Accreted Interest	Current Interest	Total
2019	$ 3,947,204	$ 132,796	$ 1,850,872	$ 5,930,872
2020	3,779,659	920,341	1,910,524	6,610,524
2021	3,747,087	892,913	1,840,030	6,480,030
2022	3,717,990	867,010	1,764,024	6,349,024
2023	3,702,370	842,630	1,686,555	6,231,555
2024-2028	18,473,174	7,416,826	7,222,806	33,112,806
2029-2033	19,314,684	8,390,316	4,567,425	32,272,425
2034-2037	12,514,888	1,855,112	1,203,120	15,573,120
Total	$ 69,197,056	$ 21,317,944	$ 22,045,356	$ 112,560,356

Qualified Zone Academy Bonds

In October 2005, the District issued $4,500,000 of 2005 QZAB to provide funds to finance certain improvements, equipment, and other educational development programs of the District. The bonds mature on October 26, 2021. The annual base rental payment of $230,810 to begin October 15, 2005, will be deposited with Bank of New York into an interest generating investment to produce sufficient income to repay the $4,500,000 certificates upon maturity on October 26, 2021. At June 30, 2018, the principal balance outstanding was $4,500,000.

Construction Loan

In December 2016, the District obtained a long-term loan to fund various construction and modernization projects. The loan will mature on December 1, 2026, with interest rate of 2.29 percent. At June 30, 2018, the outstanding balance on the loan was $13,880,775.

Year Ending June 30,	Principal
2019	$ 1,199,748
2018	1,280,973
2019	1,362,290
2020	1,453,749
2021	1,545,313
2022-2027	7,038,702
	$ 13,880,775

Career Technical Education Facilities Program Loan

The District obtained a long-term loan to fund various startup costs of the career technical education program. At June 30, 2018, the outstanding balance on the loan was $307,216.

Year Ending June 30,		Principal
2019	$	153,608
2020		153,608
	$	307,216

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the District at June 30, 2018, amounted to $3,392,837.

Supplemental Early Retirement Plan

The District offered a supplemental early retirement incentive plan through the Public Agency Retirement System (PARS) during the current fiscal year. The plan was offered to eligible employees who retired on or before June 30, 2018. The District purchased an annuity through PARS for the employees. Benefit payments are scheduled to be paid over 5 years beginning July 1, 2018. Future payments are as follows:

Year Ending June 30,		Total
2019	$	968,000
2020		968,000
2021		968,000
2022		968,000
2023		968,000
Total	$	4,840,000

Claims Liability

Liabilities for claims for all injury and compensation cases are established by the District's independent administrator. These liabilities are based upon estimates, which are reviewed periodically for adequacy, adjusted if needed, and terminated upon the closing of each claim. Ending liabilities balances of $13,140,448 were discounted at a rate of 0.5 percent and were accepted as estimated by the District's administrator. See Note 12 for additional details.

Net Other Postemployment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
District Plan	$ 173,280,872	$ 49,622,006	$ 6,445,731
Medicare Premium Payment (MPP) Program	3,892,495	-	(502,082)
Total	$ 177,173,367	$ 49,622,006	$ 5,943,649

The details of each plan are as follows:

District Plan

Plan Administration

The California Public Employees' Retirement System (CalPERS) administers the Santa Ana Unified School District's Postemployment Benefits Plan – a single-employer defined benefit plan that is used to provide other postemployment benefits other than pensions (OPEB) for all permanent full-time employees of the District. Financial information for CalPERS can be found on the CalPERS website at https://www.calpers.ca.gov/page/forms-publications.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	744
Active employees	3,922
	4,666

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Santa Ana Educators' Association (SAEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, SAEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed $49,622,006 to the Plan, of which $9,622,006 was used for current premiums and $40,000,000 was used to fund the OPEB Trust.

Net OPEB Liability of the District

The District's net OPEB liability of $173,280,872 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2017, were as follows:

Total OPEB liability	$ 183,465,564
Plan fiduciary net position	(10,184,692)
District's net OPEB liability	$ 173,280,872
Plan fiduciary net position as a percentage of the total OPEB liability	5.55%

Actuarial Assumptions

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

Inflation	2.75	percent
Salary increases	2.75	percent, average, including inflation
Investment rate of return	6.00	percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00	percent for 2017

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2016	$ 179,726,603	$ -	$ 179,726,603
Service cost	4,331,230	-	4,331,230
Interest	10,574,943	-	10,574,943
Contributions-employer	-	21,167,212	(21,167,212)
Net investment income	-	186,014	(186,014)
Benefit payments	(11,167,212)	(11,167,212)	-
Administrative expense	-	(1,322)	1,322
Net change in total OPEB liability	3,738,961	10,184,692	(6,445,731)
Balance at June 30, 2017	$ 183,465,564	$ 10,184,692	$ 173,280,872

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

The following presents the net OPEB liability of the District, as well as what the District's net 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	Net OPEB Liability
1% decrease (5.0%)	$ 189,657,232
Current discount rate (6.0%)	173,280,872
1% increase (7.0%)	158,835,992

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

The following presents the net OPEB liability of the District, as well as what the District's net 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	Net OPEB Liability
1% decrease (3.0%)	$ 159,081,191
Current healthcare cost trend rate (4.0%)	173,280,872
1% increase (5.0%)	188,623,722

OPEB Expense and Deferred Outflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $6,445,731. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of $49,622,006.

The deferred outflows of resources for OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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 $3,892,495 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 0.9252 percent, and 0.9390 percent, resulting in a net decrease in the proportionate share of 0.0.0138 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(502,082).

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%)	$ 4,309,264
Current discount rate (3.58%)	3,892,495
1% increase (4.58%)	3,487,100

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 Medicare costs trend 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)	$ 3,517,466
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	3,892,495
1% increase (4.7% Part A and 5.1% Part B)	4,263,780

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, 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 $7,340,000 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 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 150,000	$ -	$ 5,948	$ 155,948
Stores inventories	804,883	-	741,918	1,546,801
Prepaid expenditures	87,653	-	759	88,412
Total Nonspendable	1,042,536	-	748,625	1,791,161
Restricted				
Legally restricted programs	28,021,092	-	1,521,077	29,542,169
Cafeteria program	-	-	20,254,912	20,254,912
Capital projects	-	4,588,395	54,606,838	59,195,233
Debt services	-	-	28,785,626	28,785,626
Total Restricted	28,021,092	4,588,395	105,168,453	137,777,940
Committed				
Stabilization	45,564,822	-	-	45,564,822
Deferred maintenance program	-	-	5,100,051	5,100,051
Total Committed	45,564,822	-	5,100,051	50,664,873
Assigned				
Capital projects	-	7,944,813	-	7,944,813
NJROTC	47,618	-	-	47,618
Civic Center	484,721	-	-	484,721
Godinez rental fees	78,283	-	-	78,283
One-time discretionary funds	3,900,068	-	-	3,900,068
Furniture and equipment for ALA	292,618	-	-	292,618
Early learning	2,329,401	-	-	2,329,401
Walker and Roosevelt joint use	50,000	-	-	50,000
Enterprise resource planning	1,978,003	-	-	1,978,003
Specialized spaces	1,450,018	-	-	1,450,018
Other postemmployment benefits	310,897	-	-	310,897
Total Assigned	10,921,627	7,944,813	-	18,866,440
Unassigned				
Reserve for economic uncertainties	13,018,521	-	-	13,018,521
Remaining unassigned	7,689,880	-	-	7,689,880
Total Unassigned	20,708,401	-	-	20,708,401
Total	$ 106,258,478	$ 12,533,208	$ 111,017,129	$ 229,808,815

NOTE 12 - RISK MANAGEMENT

The District's risk management activities are recorded in the Self-Insurance Fund. The General Fund, through the purchase of commercial insurance, administers employee life and health programs. The District self-insures its exposures for workers' compensation claims up to a $1 million self-insured retention (SIR), and has obtained excess coverage up to statutory limits through participation in the Alliance of Schools for Cooperative Insurance Programs (ASCIP). The District also participates in ASCIP for property and liability coverage up to $5 million. Excess property and liability coverage is obtained through the public entity risk pool, Schools Excess Liability Fund (SELF). See Note 15 for additional information relating to public entity risk pools.

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.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2018:

	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2016	$ 12,881,374	$ 832,422	$ 13,713,796
Claims and changes in estimates	1,896,332	86,913	1,983,245
Claims payments	(2,392,889)	(418,832)	(2,811,721)
Liability Balance, June 30, 2017	12,384,817	500,503	12,885,320
Claims and changes in estimates	3,904,576	210,400	4,114,976
Claims payments	(3,475,795)	(384,053)	(3,859,848)
Liability Balance, June 30, 2018	$ 12,813,598	$ 326,850	$ 13,140,448
Assets available to pay claims at June 30, 2018	$ 28,170,561	$ 381,939	$ 28,552,500

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	$ 472,622,449	$ 142,601,912	$ 37,675,820	$ 48,511,882
CalPERS	177,755,962	56,692,046	3,448,657	32,180,475
CalPERS - Safety Risk Pool	2,899,401	1,314,454	368,411	(105,258)
Total	$ 653,277,812	$ 200,608,412	$ 41,492,888	$ 80,587,099

The details of each plan are as follows:

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

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	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $37,644,921.

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:

Districts's proportionate share of net pension liability	$ 472,622,449
State's proportionate share of the net pension liability associated with the District	279,599,448
Total	$ 752,221,897

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 0.5111 percent and 0.5280 percent, resulting in a net decrease in the proportionate share of 0.0169 percent.

For the year ended June 30, 2018, the District recognized pension expense of $48,511,882. In addition, the District recognized pension expense and revenue of $28,144,369 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	$ 37,644,921	$ -
Net change in proportionate share of net pension liability	15,650,359	16,845,272
Difference between projected and actual earnings on pension plan investments	-	12,587,252
Differences between expected and actual experience in the measurement of the total pension liability	1,747,804	8,243,296
Changes of assumptions	87,558,828	-
Total	$ 142,601,912	$ 37,675,820

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	$ (10,464,250)
2020	7,918,351
2021	1,141,780
2022	(11,183,133)
Total	$ (12,587,252)

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	$ 13,957,022
2020	13,957,022
2021	13,957,022
2022	13,957,022
2023	11,002,662
Thereafter	13,037,673
Total	$ 79,868,423

Actuarial Methods and Assumptions

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

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

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 693,959,800
Current discount rate (7.10%)	472,622,449
1% increase (8.10%)	292,992,189

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

Plan Description

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

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

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 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 for CalPERS and CalPERS Safety Risk Pool were $14,777,858 and $402,541, respectively.

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 and CalPERS Safety Risk Pool net pension liability totaling $177,755,962 and $2,899,401, respectively. 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 CalPERS' proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.7446 percent and 0.7557 percent, resulting in a net decrease in the proportionate share of 0.0111 percent. The District's CalPERS Safety Risk Pool's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0485 percent and 0.0484 percent, resulting in a net increase in the proportionate share of 0.0001 percent.

For the year ended June 30, 2018, the District recognized pension expense of $32,180,475 for CalPERS and $(105,258) for CalPERS Safety Risk Pool. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 14,777,858	$ -
Net change in proportionate share of net pension liability	3,432,731	1,355,800
Difference between projected and actual earnings on pension plan investments	6,149,140	-
Differences between expected and actual experience in the measurement of the total pension liability	6,368,263	-
Changes of assumptions	25,964,054	2,092,857
Total	$ 56,692,046	$ 3,448,657

	CalPERS Safety Risk Pool	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 402,541	$ -
Net change in proportionate share of net pension liability	225,059	317,870
Difference between projected and actual earnings on pension plan investments	116,365	-
Differences between expected and actual experience in the measurement of the total pension liability	36,800	9,595
Changes of assumptions	533,689	40,946
Total	$ 1,314,454	$ 368,411

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,	CalPERS Deferred Outflows/(Inflows) of Resources
2019	$ (166,620)
2020	7,094,774
2021	2,588,254
2022	(3,367,268)
Total	$ 6,149,140

Year Ended June 30,	CalPERS Safety Risk Pool Deferred Outflows of Resources
2019	$ (4,188)
2020	138,901
2021	49,742
2022	(68,090)
Total	$ 116,365

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,	CalPERS Deferred Outflows/(Inflows) of Resources
2019	$ 12,249,515
2020	11,508,050
2021	8,558,826
Total	$ 32,316,391

The CalPERS' Safety Risk Pool's EARSL is 3.8 years (measurement periods 2014-2015 and 2016-2017) and 3.7 years (measurement period 2015-2016) and will be recognized in pension expense as follows:

Year Ended June 30,	CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources
2019	$ (22,747)
2020	228,538
2021	221,346
Total	$ 427,137

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	CalPERS Net Pension Liability
1% decrease (6.15%)	$ 261,535,982
Current discount rate (7.15%)	177,755,962
1% increase (8.15%)	108,253,420

Discount Rate	CalPERS Safety Risk Pool Net Pension Liability
1% decrease (6.15%)	$ 4,334,989
Current discount rate (7.15%)	2,899,401
1% increase (8.15%)	1,725,880

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 $22,737,415 (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.

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 litigations 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
Mitchell - site work & portables - phase 3	$ 330,223	7/16/2018
ALA II - portables	2,138	7/16/2018
	$ 332,361	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to the applicable entities for its property and liability coverage, and excess property and liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2018, the District made payments of $2,043,424 and $309,507 to ASCIP and SELF, respectively, for property and liability coverage, and excess property and liability coverage.

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	$ 353,597,760
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(132,336,100)
Net Position - Beginning as Restated	$ 221,261,660

REQUIRED SUPPLEMENTARY INFORMATION

SANTA ANA UNIFIED 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	$ 516,182,413	$ 511,872,868	$ 510,195,822	$ (1,677,046)
Federal sources	43,047,097	56,144,720	49,351,981	(6,792,739)
Other State sources	81,750,394	90,265,521	88,691,445	(1,574,076)
Other local sources	4,302,223	9,060,650	7,416,775	(1,643,875)
Total Revenues [1]	645,282,127	667,343,759	655,656,023	(11,687,736)
EXPENDITURES				
Current				
Certificated salaries	267,550,033	274,923,386	275,945,554	(1,022,168)
Classified salaries	92,234,265	90,554,602	92,440,010	(1,885,408)
Employee benefits	155,875,160	160,611,527	196,702,250	(36,090,723)
Books and supplies	44,393,827	44,611,054	38,618,935	5,992,119
Services and operating expenditures	59,743,351	66,209,385	58,355,806	7,853,579
Other outgo	2,279,669	2,090,963	2,047,955	43,008
Capital outlay	6,712,113	6,483,735	4,815,500	1,668,235
Debt service - principal	251,524	251,524	251,524	-
Debt service - interest	-	-	5,613	(5,613)
Total Expenditures [1]	629,039,942	645,736,176	669,183,147	(23,446,971)
Excess of Revenues Over Expenditures	16,242,185	21,607,583	(13,527,124)	(35,134,707)
Other Financing Sources (Uses)				
Transfers out	(11,027,665)	(21,812,843)	(5,645,329)	16,167,514
NET CHANGE IN FUND BALANCES	5,214,520	(205,260)	(19,172,453)	(18,967,193)
Fund Balances - Beginning	125,430,931	125,430,931	125,430,931	-
Fund Balances - Ending	$ 130,645,451	$ 125,225,671	$ 106,258,478	$ (18,967,193)

[1] 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 other 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.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	2018
Total OPEB Liability	
Service cost	$ 4,331,230
Interest	10,574,943
Benefit payments	(11,167,212)
Net change in total OPEB liability	3,738,961
Total OPEB liability - beginning	179,726,603
Total OPEB liability - ending (a)	$ 183,465,564
Plan Fiduciary Net Position	
Contributions - employer	$ 21,167,212
Net investment income	186,014
Benefit payments	(11,167,212)
Administrative expense	(1,322)
Net change in plan fiduciary net position	10,184,692
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	$ 10,184,692
District's net OPEB liability - ending (a) - (b)	$ 173,280,872
Plan fiduciary net position as a percentage of the total OPEB liability	5.55%
Covered payroll	N/A[1]
District's net OPEB liability as a percentage of covered payroll	N/A[1]

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

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

See accompanying note to required supplementary information.

SANTA ANA UNIFIED 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	0.9252%
District's proportionate share of the net OPEB liability	$ 3,892,495
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.

SANTA ANA UNIFIED 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	0.5111%	0.5280%
District's proportionate share of the net pension liability	$ 472,622,449	$ 427,027,116
State's proportionate share of the net pension liability associated with the District	279,599,448	243,098,920
Total	$ 752,221,897	$ 670,126,036
District's covered - employee payroll	$ 270,435,684	$ 261,397,446
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	174.76%	163.36%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.7446%	0.7557%
District's proportionate share of the net pension liability	$ 177,755,962	$ 149,251,038
District's covered - employee payroll	$ 92,901,800	$ 90,150,755
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	191.34%	165.56%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%
CalPERS - SAFETY RISK POOL		
District's proportion of the net pension liability	0.0485%	0.0484%
District's proportionate share of the net pension liability	$ 2,899,401	$ 2,506,207
District's covered - employee payroll	$ 2,007,112	$ 2,019,608
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	144.46%	124.09%
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
0.5389%	0.5013%
$ 362,799,016	$ 292,931,830
191,880,686	176,884,886
$ 554,679,702	$ 469,816,716
$ 245,668,908	$ 224,429,169
147.68%	130.52%
74%	77%
0.7186%	0.7462%
$ 105,921,641	$ 84,713,519
$ 79,423,023	$ 74,554,979
133.36%	113.63%
79%	83%
0.0494%	0.0302%
$ 2,034,198	$ 1,878,447
$ 1,960,237	$ 1,714,755
103.77%	109.55%
79%	83%

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
Contractually required contribution	$ 37,644,921	$ 34,020,809
Contributions in relation to the contractually required contribution	37,644,921	34,020,809
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 260,879,563	$ 270,435,684
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 14,777,858	$ 12,902,202
Contributions in relation to the contractually required contribution	14,777,858	12,902,202
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 95,150,718	$ 92,901,800
Contributions as a percentage of covered - employee payroll	15.531%	13.888%
CalPERS - SAFETY RISK POOL		
Contractually required contribution	$ 402,541	$ 403,287
Contributions in relation to the contractually required contribution	402,541	403,287
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 2,007,112	$ 2,019,608
Contributions as a percentage of covered - employee payroll	20.06%	19.97%

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

See accompanying note to required supplementary information.

2016	2015
$ 28,047,946	$ 21,815,399
28,047,946	21,815,399
$ -	$ -
$ 261,397,446	$ 245,668,908
10.73%	8.88%
$ 10,680,160	$ 9,348,884
10,680,160	9,348,884
$ -	$ -
$ 90,150,755	$ 79,423,023
11.847%	11.771%
$ 371,309	$ 313,139
371,309	313,139
$ -	$ -
$ 1,960,237	$ 1,714,755
18.94%	18.26%

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

	Expenditures		
	Budget	Actual	Excess
General Fund	$ 667,549,019	$ 674,828,476	$ 7,279,457

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

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net 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 benefit terms.

Change of Assumptions **–** There were no changes in economic assumptions.

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

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Fund for the Improvement of Education - Fitness for All	84.215E	[1]	$ 260,914
Positive School Climate Model	84.411C	[1]	1,022,278
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	20,137,842
Title I, Part G: Advanced Placement Test Fee Reimbursement Program	84.330B	14831	61,120
Title I, School Improvement Grant	84.377	15248	415,513
Title II, Part A, Supporting Effective Instruction	84.367	14341	1,915,212
Title III, English Learner Student Program	84.365	14346	2,045,388
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	206,120
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	1,751,544
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.196	14332	204,044
Early Intervention Grants, Part C	84.181	23761	282,678
Migrant Education - State Grant Program:			
Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	346,425
Title I, Part C, Migrant Education (MESRP)	84.011	14768	56,811
Total Migrant Education - State Grant Program			403,236
Special Education Cluster:			
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	9,005,360
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	35,275
Preschool Grants, Part B, Sec 619	84.173	13430	346,331
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	1,236,573
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	611,848
Preschool Staff Development, Part B, Sec 619	84.173A	13431	693
Alternate Dispute Resolution	84.173A	13007	23,066
Total Special Education Cluster			11,259,146
Passed through Central County Regional Occupational Program:			
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	467,283
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	402,825
Total U.S. Department of Education			40,835,143
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medi-Cal Assistance Program:			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	2,351,583
Passed through Orange County Department of Education:			
Medi-Cal Administrative Activities	93.778	10060	2,071,275
Total Medi-Cal Assistance Program			4,422,858
Passed through Orange County Head Start, Inc.			
Head Start	93.600	10016	3,538,358
Total U.S. Department of Health and Human Services			7,961,216

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	$ 22,810,507
School Breakfast Program	10.553	13390	2,984
Especially Needy Breakfast Program	10.553	13526	6,367,535
Commodities	10.555	13396	2,885,361
Seamless Summer Feeding Program	10.559	13004	1,772,797
Total Child Nutrition Cluster			33,839,184
Child and Adult Care Food Program	10.558	13666	4,331,537
Passed through County of Orange - Health Care Agency:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance	10.574	[1]	13,950
Total U.S. Department of Agriculture			38,184,671
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officer Training Corps	12.000	[1]	155,582
NATIONAL SCIENCE FOUNDATION			
Passed through Regents of the University of California, Irvine:			
Irvine Mathematics Project	47.076	[1]	168,099
Total Expenditures of Federal Awards			$ 87,304,711

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Santa Ana Unified School District was organized in 1888, and consists of an area comprising approximately 24 square miles. The District operates thirty-six elementary schools, nine middle schools, six high schools, one charter school, ten special schools/programs, and three alternative high schools.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Valerie Amezcua	President	2018
Rigo Rodriguez, Ph.D.	Vice President	2020
Alfonso Alvarez, Ed.D.	Clerk	2020
Cecilia Iglesias	Member	2020
John Palacio	Member	2018

ADMINISTRATION

Stefanie P. Phillips, Ed.D.	Superintendent
David Haglund	Deputy Superintendent, Educational Services/CAO
Edmond Heatley, Ed.D.	Deputy Superintendent, Administrative Services
Manoj Roychowdhury	Assistant Superintendent, Business Services
Alfonso Jimenez, ED.D.	Assistant Superintendent, Elementary Education
Lucinda Pueblos	Assistant Superintendent, K-12 School Performance and Culture
Doreen Lohnes	Assistant Superintendent, Special Education/SELPA
Orin Williams	Assistant Superintendent, Facilities/Governmental Relations
Mark McKinney	Associate Superintendent, Human Resources

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period Report 80203873	Annual Report 4B7EECF4
Regular ADA		
Transitional kindergarten through third	14,180.03	14,169.30
Fourth through sixth	11,355.15	11,330.39
Seventh and eighth	7,314.82	7,300.04
Ninth through twelfth	13,778.41	13,685.34
Total Regular ADA	46,628.41	46,485.07
Extended Year Special Education		
Transitional kindergarten through third	47.53	47.53
Fourth through sixth	24.24	24.24
Seventh and eighth	3.87	3.87
Ninth through twelfth	90.91	90.91
Total Extended Year Special Education	166.55	166.55
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.86	0.76
Fourth through sixth	3.31	3.17
Seventh and eighth	3.92	3.43
Ninth through twelfth	11.10	10.54
Total Special Education, Nonpublic, Nonsectarian Schools	19.19	17.90
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.46	0.46
Seventh and eighth	0.26	0.26
Ninth through twelfth	1.23	1.23
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.95	1.95
Community Day School		
Seventh and eighth	15.90	17.08
Ninth through twelfth	23.43	21.40
Total Community Day School	39.33	38.48
Total ADA	46,855.43	46,709.95

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

CHARTER SCHOOL - Advanced Learning Academy

	Final Report	
	Second Period Report 92C24F8B	Annual Report 5190B039
Regular ADA		
Transitional kindergarten through third	24.06	24.15
Fourth through sixth	173.51	173.21
Seventh and eighth	134.30	134.07
Ninth through twelfth	12.76	12.55
Total Regular ADA	344.63	343.98
Classroom based ADA		
Transitional kindergarten through third	24.06	24.15
Fourth through sixth	173.51	173.21
Seventh and eighth	134.30	134.07
Ninth through twelfth	12.76	12.55
Total Regular ADA	344.63	343.98

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,012	182	-	Complied
Grades 1 - 3	50,400				
Grade 1		51,298	182	-	Complied
Grade 2		51,298	182	-	Complied
Grade 3		51,298	182	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,859	182	-	Complied
Grade 5		54,859	182	-	Complied
Grade 6		55,109	182	-	Complied
Grades 7 - 8	54,000				
Grade 7		55,084	182	-	Complied
Grade 8		55,084	182	-	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	182	-	Complied
Grade 10		64,820	182	-	Complied
Grade 11		64,820	182	-	Complied
Grade 12		64,820	182	-	Complied

CHARTER SCHOOL - Advanced Learning Academy

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 3	50,400				
Grade 3		57,180	182	-	Complied
Grades 4 - 6	54,000				
Grade 4		57,180	182	-	Complied
Grade 5		57,180	182	-	Complied
Grade 6		57,180	182	-	Complied
Grades 7 - 8	54,000				
Grade 7		59,300	182	-	Complied
Grade 8		59,300	182	-	Complied
Grades 9 - 12	64,800				
Grade 9		66,332	182	-	Complied
Grade 10		66,332	182	-	Complied
Grade 11		66,332	182	-	Complied
Grade 12		66,332	182	-	Complied

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements as of June 30, 2018.

See accompanying note to supplementary information.

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

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND [3]				
Revenues	$ 666,925,080	$ 655,298,590	$ 667,006,458	$ 660,120,516
Expenditures	671,223,898	629,183,147	626,903,433	604,749,503
Other uses and transfers out	5,119,798	21,742,884	19,216,780	25,002,747
Total Expenditures and Other Uses	676,343,696	650,926,031	646,120,213	629,752,250
INCREASE IN FUND BALANCE	$ (9,418,616)	$ 4,372,559	$ 20,886,245	$ 30,368,266
ENDING FUND BALANCE	$ 96,528,965	$ 105,947,581	$ 101,575,022	$ 80,688,777
AVAILABLE RESERVES [2]	$ 19,842,394	$ 20,708,401	$ 12,931,648	$ 12,327,715
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	2.93%	3.18%	2.00%	2.01%
LONG-TERM OBLIGATIONS [4]	N/A	$ 617,152,275	$ 612,730,964	$ 495,612,955
K-12 AVERAGE DAILY ATTENDANCE AT P-2	45,374	46,855	48,508	49,957

The General Fund balance has increased by $25,258,804 over the past two years. However, the fiscal year 2018-2019 budget projects a decrease of $9,418,616 (8.9 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $121,539,320 over the past two years.

Average daily attendance has decreased by 3,102 over the past two years. An additional decline of 1,481 ADA is anticipated during fiscal year 2018-2019.

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

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

[3] General Fund amounts do not include activity related to the consolidation of the Fund 20, Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

[4] Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Name of Charter School	Included in Audit Report
Advanced Learning Academy (Charter No. 1765)	Yes
Edward B. Cole Academy (Charter No. 0578)	No
El Sol Santa Ana Science and Arts Academy (Charter No. 0365)	No
NOVA Academy (Charter No. 0632)	No
Orange County School of the Arts (Charter No. 0290)	No
Orange County Educational Arts Academy (Charter No. 0701)	No

See accompanying note to supplementary information.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	Charter School Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS					
Deposits and investments	$ 259,892	$ 2,166,465	$ 20,387,332	$ 3,471,924	$ 455,916
Receivables	201,884	1,276,020	5,578,684	3,949	8,526
Due from other funds	1,251,891	16,722	22,302	1,979,326	949
Prepaid expenses	-	-	759	-	-
Stores inventories	-	-	741,918	-	-
Total Assets	$ 1,713,667	$ 3,459,207	$ 26,730,995	$ 5,455,199	$ 465,391
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 92,722	$ 787,236	$ 2,901,225	$ 311,876	$ 8,788
Due to other funds	555,128	2,216,711	2,826,233	43,272	456,603
Total Liabilities	647,850	3,003,947	5,727,458	355,148	465,391
Fund Balances:					
Nonspendable	-	-	748,625	-	-
Restricted	1,065,817	455,260	20,254,912	-	-
Committed	-	-	-	5,100,051	-
Total Fund Balances	1,065,817	455,260	21,003,537	5,100,051	-
Total Liabilities and Fund Balances	$ 1,713,667	$ 3,459,207	$ 26,730,995	$ 5,455,199	$ 465,391

See accompanying note to supplementary information.

Capital Facilities Fund		County School Facilities Fund		Capital Project Fund for Blended Component Units		Bond Interest and Redemption Fund		Debt Service Fund for Blended Component Units		Total Non-Major Governmental Funds	
$	21,427,394	$	29,987,114	$	688,552	$	24,556,349	$	4,748,380	$	108,149,318
	1,114,299		41,100		895		54,915		1,809		8,282,081
	2,303,886		392,723		-		-		-		5,967,799
	-		-		-		-		-		759
	-		-		-		-		-		741,918
$	24,845,579	$	30,420,937	$	689,447	$	24,611,264	$	4,750,189	$	123,141,875
$	679,471	$	628,789	$	34	$	-	$	69	$	5,410,210
	-		2,216		38,615		-		575,758		6,714,536
	679,471		631,005		38,649		-		575,827		12,124,746
	-		-		-		-		-		748,625
	24,166,108		29,789,932		650,798		24,611,264		4,174,362		105,168,453
	-		-		-		-		-		5,100,051
	24,166,108		29,789,932		650,798		24,611,264		4,174,362		111,017,129
$	24,845,579	$	30,420,937	$	689,447	$	24,611,264	$	4,750,189	$	123,141,875

SANTA ANA UNIFIED SCHOOL DISTRICT

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

	Charter School Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES					
Local Control Funding Formula	$ 3,283,096	$ -	$ -	$ 7,430,953	$ -
Federal sources	94,103	-	38,170,721	-	-
Other State sources	427,433	7,419,880	2,525,080	-	-
Other local sources	8,322	50,315	2,561,091	30,651	47,926
Total Revenues	3,812,954	7,470,195	43,256,892	7,461,604	47,926
EXPENDITURES					
Current					
Instruction	2,450,527	5,473,659	-	-	-
Instruction-related activities:					
Supervision of instruction	177,758	445,870	-	-	-
School site administration	480,815	311,222	-	-	-
Pupil services:					
Food services	-	-	42,733,394	-	-
All other pupil services	63,460	431,969	-	-	-
Administration:					
All other administration	265,090	595,822	2,153,634	-	-
Plant services	211,669	1,673	197,860	4,077,563	16,627
Ancillary services	6,074	-	-	-	-
Enterprise services	-	-	255,949	-	-
Facility acquisition and construction	-	-	109,099	602,581	4,118,222
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	3,655,393	7,260,215	45,449,936	4,680,144	4,134,849
Excess (Deficiency) of Revenues Over Expenditures	157,561	209,980	(2,193,044)	2,781,460	(4,086,923)
Other Financing Sources					
Transfers in	513,267	-	-	-	-
Other sources - proceeds from issuance of general obligation bonds	-	-	-	-	-
Other sources - proceeds from issuance of certificates of participation	-	-	-	-	-
Transfers out	-	-	-	-	-
Other uses - payment to refunded bond escrow agent	-	-	-	-	-
Net Financing Sources (Uses)	513,267	-	-	-	-
NET CHANGE IN FUND BALANCES	670,828	209,980	(2,193,044)	2,781,460	(4,086,923)
Fund Balances - Beginning	394,989	245,280	23,196,581	2,318,591	4,086,923
Fund Balances - Ending	$ 1,065,817	$ 455,260	$ 21,003,537	$ 5,100,051	$ -

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 10,714,049
-	-	-	1,332,916	-	39,597,740
-	3,220,891	-	74,716	-	13,668,000
13,853,702	382,678	611,135	20,965,708	1,675,350	40,186,878
13,853,702	3,603,569	611,135	22,373,340	1,675,350	104,166,667
-	-	-	-	-	7,924,186
-	-	-	-	-	623,628
-	-	-	-	-	792,037
-	-	-	-	-	42,733,394
-	-	-	-	-	495,429
163,722	-	-	-	-	3,178,268
8,287	18,231	903	-	-	4,532,813
-	-	-	-	-	6,074
-	-	-	-	-	255,949
8,544,565	1,166,564	6,170	-	-	14,547,201
-	-	-	10,835,000	5,689,225	16,524,225
-	-	2,000	9,899,028	3,464,211	13,365,239
8,716,574	1,184,795	9,073	20,734,028	9,153,436	104,978,443
5,137,128	2,418,774	602,062	1,639,312	(7,478,086)	(811,776)
1,256,831	-	-	-	7,242,599	9,012,697
-	-	-	78,576,284	-	78,576,284
-	-	-	-	21,635,908	21,635,908
(1,351,088)	-	(555,368)	-	-	(1,906,456)
-	-	-	(78,146,578)	(21,231,542)	(99,378,120)
(94,257)	-	(555,368)	429,706	7,646,965	7,940,313
5,042,871	2,418,774	46,694	2,069,018	168,879	7,128,537
19,123,237	27,371,158	604,104	22,542,246	4,005,483	103,888,592
$ 24,166,108	$ 29,789,932	$ 650,798	$ 24,611,264	$ 4,174,362	$ 111,017,129

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 Options funds have been recorded in the current period as revenues that have not been expended as of June 30, 2018. These unspent balances are reported as legally restricted ending balances within the General Fund. In addition, the Build America Bonds are excluded from the provisions of the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and, therefore, are not presented in the Schedule of Expenditures of Federal Awards.

	CFDA Number	Amount
Total Federal Revenues reported from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 88,949,721
Medi-Cal Billing Option	93.778	(312,094)
Build America Bonds	[1]	(1,332,916)
Total Schedule of Expenditures of Federal Awards		$ 87,304,711

[1] CFDA Number not available

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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, and *Education Code* Sections 47612 and 47612.5 for the Charter School.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201 and *Education Code* Section 47612.5 for the Charter School.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

Governing Board
Santa Ana Unified School District
Santa Ana, California

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Ana Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Santa Ana Unified School District's basic financial statements, and have issued our report thereon dated December 5, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Santa Ana Unified School District in a separate letter dated December 5, 2018.

Santa Ana Unified School District's Response to Findings

Santa Ana Unified School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Santa Ana Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 5, 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
Santa Ana Unified School District
Santa Ana, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 5, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santa Ana Unified School District
Santa Ana, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Qualified Opinion on the Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Santa Ana Unified School District did not comply with requirements regarding the Unduplicated Local Control Funding Formula Pupil Counts; refer to State Awards Findings and Questioned Costs; finding 2018-003. Compliance with such requirements is necessary, in our opinion, for Santa Ana Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on the Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Santa Ana Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Programs

In our opinion, Santa Ana Unified 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, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Santa Ana Unified 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	Yes, 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	Yes
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	Yes
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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
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	Yes
Charter School Facility Grant Program	No, see below

The District does offer an Independent Study Program, but the ADA was below the threshold required for testing; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Work Experience 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 offer an Apprenticeship Program; therefore, we did not perform procedures related to the Apprenticeship Program.

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

The District does not have any Non Classroom-Based Instruction for Charter Schools; therefore, we did not perform procedures related to the Non Classroom-Based Instructions/Independent Study for Charter Schools.

The District does not have any Non Classroom-Based Instruction for Charter Schools; therefore we did not perform procedures related to the Determination of Funding for Non Classroom-Based Instructions.

The District did not receive any funding for the Charter School Facility Grant Program; therefore, we did not perform procedures related to the Charter School Facility Grant Program.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA ANA UNIFIED 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?	Yes
Significant deficiency identified?	Yes
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
10.553, 10.555, and 10.559	Child Nutrition Cluster
10.558	Child and Adult Care Food Program

Dollar threshold used to distinguish between Type A and Type B programs:	$ 2,619,507
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

Unmodified for all programs except for the following program which was qualified:

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

Capital Assets (Material Weakness)

2018-001 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 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 has a capital asset system; however, it is not fully functional. The following conditions were noted:

1. There is no personnel at the District that has been assigned to maintain the system.
2. The work in progress account has not been reconciled to ensure all completed projects are transferred to the appropriate classification to be depreciated.
3. Equipment inventory has not been reconciled to ensure that all equipment reported still exists.
4. Due to the system not functioning properly, accumulated depreciation appears to be misstated.

Questioned costs

There is no questioned costs associated with this condition.

Context

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

Effect

Consequently, amounts recorded for capital assets in the district's financial statements could be misstated. In addition, by not performing physical inventory counts of capital assets, the District increases the risk of loss from damage, theft, or otherwise.

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.

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.

Corrective Action Plan

Prior to July 1, 2017, the District did not have a comprehensive process to record the purchase or retirement of its fixed assets. A physical inventory was performed in order identify, record, and tag any untagged machinery and equipment with a historical cost of $500 or greater. On August 13, 2018, the District received a draft report of the physical inventory. The District is currently working with the inventory report to make the necessary adjustments in the financial system in order to ensure proper reporting of the District's fixed assets and accumulated depreciation going forward.

System Reconciliation (Significant Deficiency)

2018-002 30000

Criteria or Specific Requirements

In accordance with *Education Code* Section 41001, all School Districts are required to deposit all receipt of funds with the County Treasury so that the funds can be credited to the proper funds of the School Districts. In addition, the District must reconcile and balance all of its funds to account for the timing difference of transactions posted between the District and the County in order to accurately report the balances held in the County.

Condition

The District has not properly reconciled its in-house Oracle system to the County system as of June 30, 2018. The District does not investigate the variances between the two systems and simply makes adjustments to balance the two systems.

Questioned costs

There is no questioned costs associated with this condition.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the reconciliation of the District in-house system to the County system.

Effect

Due to the condition identified, the District's general ledger may be inaccurate.

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 reconcile the two systems on a regular basis.

Recommendation

The District should perform timely reconciliation of its in-house system and the County system, monthly reconciliation must take place with adequate documentation to substantiate the reconciling items between the District's general ledger and balances carried/reported by the County. Additionally, any adjustments for activities not properly accounted for by the County should be immediately communicated to the County.

Corrective Action Plan

The Manger of Accounting or designee will monitor and reconcile the general ledger accounts in the Oracle Financial System and the Orange County Department of Education (OCDE) Financial System at the end of each month to ensure that they balance. Every financial transaction in Oracle will be reviewed by the manager prior to posting. The Form 1 County Transfer form will be completed by the manager and sent to OCDE within 24 hours of posting so they can update their financial system. The Manger will then confirm that OCDE has updated their financial records correctly. All financial documentation that is received from OCDE will be posted into Oracle within 48 hours of receipt. The balances in Oracle will be compared to the balance at OCDE to insure that all financial documentation has been received. The manager will request copies of any missing financial documentation. At the end of each month the manager will compare the ending balance for each account to insure that both financial systems are in alignment. All discrepancies will be researched and communicated to OCDE as they arrive.

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

The following findings represent instances of noncompliance and questioned costs relating to State program laws and regulations. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

Unduplicated Local Control Funding Formula Pupil Counts

2018-003 40000

Criteria or Specific Requirements

In accordance with *Education Code* sections 2574(b)(3)(c), 42238.02(b)(3)(B), and 41020, the District is required to maintain supporting documentation such as a Free and Reduce Price Meal (FRPM) eligibility application or an alternative household income data collection form that indicates the student was eligible for the designation reported on the California Longitudinal Pupil Achievement Data System (CALPADS).

Condition

The District did not update the status designation for 76 students who had a designation of "Free" or "Reduced" on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. Through review of supporting documentation, each of these 76 students should have been reported with a status designation of "Free" or "Reduced", but it appears that the District did not update the 1.18 report to reflect the correct status.

Questioned Costs

The questioned costs associated with this condition resulted in an increase of $58,484 in Local Control Formula Funding.

Context

The condition was identified by the District during the review of procedures related to LCFF base year. Upon further discussion with the District, a timing difference was noted in the application review process. The District failed to account for all the applications received prior to October 31, 2017 deadline. The District was able to identify 100 percent of the exceptions that existed, resulting in the discovery of the 76 students.

Effect

As a result of our testing, it appears that the District did not update the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report for pupils that did not have documentation supporting a "Free" or "Reduced" designation on the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report. The results of our testing have been documented as follows:

Total Enrollment	Unduplicated FRPM/EL/Foster Youth Total	Unduplicated Pupil Count Adjustment (FRPM)	Total Adjusted Enrollment	Adjusted Total Unduplicated Pupil Count
48,326	42,327	76	48,326	42,403

Cause

It appears the cause was due to timing difference in the application review process. The District failed to account for all the applications received prior to October 31, 2017 deadline.

Recommendation

The District should review their current procedures and determine the necessary steps to ensure that all student data is uploaded to CALPADS based on the timelines and reporting deadlines for CALPADS.

Corrective Action Plan

The District has noted the timing issues incurred during the reporting, and will ensure that proper dates are used going forward when submitting the data.

SANTA ANA UNIFIED SCHOOL DISTRICT

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

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of 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 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 has a capital asset system; however, it is not fully functional. The following conditions were noted:

1. There is no personnel at the District that has been assigned to maintain the system.
2. The work in progress account has not been reconciled to ensure all completed projects are transferred to the appropriate classification to be depreciated.
3. Equipment inventory has not been reconciled to ensure that all equipment reported still exists.
4. Due to the system not functioning properly, accumulated depreciation appears to be misstated.

Questioned costs

There is no questioned costs associated with this condition.

Context

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

Effect

Consequently, amounts recorded for capital assets in the district's financial statements could be misstated. In addition, by not performing physical inventory counts of capital assets, the District increases the risk of loss from damage, theft, or otherwise.

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.

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

Not implemented, see finding 2018-001.

State Awards Findings

After School Education and Safety Program

2017-002 400000

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 for the after school component of the program. However, in reviewing Martin Elementary School's monthly summary total for the month of December 2016 and in comparing the total to the site's attendance rosters, it was noted that the monthly summary totals differ significantly. Martin Elementary School's attendance rosters had a total of 1,847 students served whereas the total of the monthly summary are 1,877 students served, resulting in 30 exceptions. Exceptions consisted of 30 students who were released before 6PM but had no early release form on file.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, for the sites tested for the after school component of the program, there were 30 students served during the month of December 2016 for which the attendance rosters did not conform to the District's early release policy.

Context

The condition identified resulted from our review of Martin Elementary School's attendance records and monthly attendance summary totals for the month of December 2016. For the after school component of the program, auditor selected four out of 46 schools for the first semi-annual reporting period dated July to December 2016. Auditor noted that for the month of December 2016, Martin Elementary School did not consistently have early release forms for students that were being released before 6PM.

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 Martin Elementary School because the report submitted to the State reflects inaccurate attendance information.

Cause

It appears that the condition identified, for the after school component of the program, 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 site did not have early release forms 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 forms 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.

Governing Board
Santa Ana Unified School District
Santa Ana, California

In planning and performing our audit of the financial statements of Santa Ana Unified 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 5, 2018, on the government-wide financial statements of the District.

GENERAL LEDGER SYSTEM

General Ledger Detail Reports

Observation

The general ledger system is unable to generate detailed balance sheet reports that agree to the District's unaudited actuals. The system is capable of generating summary level reports that agree to the ending balances of the balance sheet accounts, however as noted is not able to generate detailed reports.

Recommendation

The District should contact the software manufacture to troubleshoot the noted issue and develop a solution that provides for detailed reports of balance sheet items. Alternatively, the District may consider reviewing the capabilities of the current system to ensure it meets user needs.

INTERNAL CONTROLS

Local Revenue

Observation

Per review of the supporting documents pertaining to the District's Depository Account local revenues, it was noted that 14 of 41 deposits tested were not deposited in a timely manner. Based on our review of sample selected for testing, it appears that delay in deposits ranged from 11 to 74 days. The delay in cash deposits can increase the probability 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 volume and amount of cash collected. At a minimum, the District should try and make a single deposit once a week to reduce the risks associated with theft, loss, and misappropriation.

Non-Payroll Disbursements

Observation

It was noted that two of 40 direct pay 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 pre-approved prior to the transaction taking place. Disbursements should go through multiple levels of approval. One of the most important approvals is by the business department. The business department is responsible for reviewing account coding and making sure that expenditures are limited by established budgets.

Payroll Disbursements

Observation

It was noted that substitute employees that are used for less than a full day are manually tracked on spreadsheets by school site staff, rather than tracking this activity on the substitute system the District has in place. At times, the site staff will reference an incorrect employee code, which is used by payroll to process pay. This may result in paying the incorrect substitute for services that they did not perform.

Recommendation

It is recommended that the District track this activity in their existing system and develop procedures related to the tracking of substitute employees. The automated system will ensure the accuracy of the data needed to generate payroll. In addition, should the District not wish to track partial day substitute employees into their existing system, the District should inform the school sites' staff the importance of ensuring the correct employee code is used to facilitate proper payment of services provided.

Terminations, Retirement, Resignation, and Benefits Reconciliation

Observation

It was noted that the District's procedures regarding resigned, retired, or terminated employees are not adhered to consistently. It was noted that for four of 40 employees tested, the employees were released at the site level prior to being authorized by Human Resource Department. This resulted in individuals being overpaid. In addition, this could result in the District paying for benefits for employees who are no longer being employed by them.

Recommendation

It is recommended that the Human Resource Department advise site and department level administration regarding established policies regarding the releasing of resigned, retired, or terminated employees. This is essential to ensure that the District does not overpay individuals for services not rendered or overpay benefits for individuals no longer employed by the District.

Vacation Accrual

Observation

During vacation testing it was noted that nine of 20 individuals tested exceeded the allowed carry over balance per the established contract agreement. Per review of the contract agreement, twelve month employees are allowed to carry over one half of each year's allowance (up to one year), subject to approval from the Assistant Superintendent of Personnel Services. For employees working less than 12 months their vacation allowance should be used in the year it is earned.

Recommendation

It is recommended that the District adhere to established policies and ensure vacations accruals are not in excess of the established contract agreements. The District should encourage its employees to utilize their vacations hours throughout the year. At the end of the fiscal year, the District should payout any excess days over the allowed five days.

ASSOCIATED STUDENT BODY (ASB)

Consolidated Associated Student Body

Observation

Per review of the ASB bank account reconciliations, it was noted that the reconciliations are not being prepared and reviewed in a timely manner. As of the audit date, the ASB had not completed the bank reconciliation after February 2017.

Recommendation

Bank reconciliation should be performed on a monthly basis. Independent review of prepared bank reconciliation should always be performed by an administrator with accounting knowledge to ensure proper monitoring of the ASB activities. Upon reviewing the reconciliation, the reviewer should sign and date the reconciliation to indicate it was reviewed. The review process will help identify any errors that may have otherwise gone unidentified.

McFadden Intermediate School

Observations

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

1. Cash collected by teachers, advisors, or clubs is not accounted for properly. Cash collections are not supported by sub-receipts or logs that tie the total to the cash count sheet. Four of six deposits 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.
2. Based on the review of cash receipting procedures, it was noted that a deposit was overstated on the general ledger due to error in deposit processing. The ASB did not properly perform the close out procedure, which resulted in the overstatement of the subsequent deposit batch. Per review of the account analysis report there were two depositing totaling $4,232.15; however, per review of the bank statement the deposits totaled $3,434. This resulted in the general ledger overstatement of $798.15.
3. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, two of four vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
4. Revenue potential forms do not provide a section to include actual revenues and expenditures activity of a fundraiser. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.
5. Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.

Recommendations

1. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions. If utilizing a log, the students name and amount being turned in should be documented. If using a receipt book, the receipts should be issued in sequential order to all individuals turning in monies for ASB events. Teachers and administrators who collect monies should be equipped with a triplicate receipts book or log sheet. 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 back-up, and the pink copy should be retained in the receipt book for audit purposes. When teachers are turning in monies for deposit, a cash count sheet should be turned in with the yellow copy of the receipts and monies to clearly identify the total amount being turned in.
2. In order to ensure that deposits are recorded accurately, the ASB should implement additional procedures to ensure each deposit batch is reviewed by an independent person of the receipting and depositing process.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.

4. The ASB should revise their existing form to include a section for clubs to input the actual results of the fundraising activity and compute the difference between projected and actual. This will allow the ASB to adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact.
5. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at end of each close out. The starting point will be from a physical inventory count and from there any items sold should be deducted from the count and any items purchased should be added to the count. This perpetual inventory counts should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.

Villa Fundamental Intermediate School

<u>Observations</u>

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

1. Based on the review of the cash receipting procedures, it was noted that three of five deposits tested was not deposited in a timely manner. The delay in deposit was 13 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, four of six vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
3. In reviewing the revenue potential forms, it was noted that two of three revenue potential forms were not completely filled out. Explanation for differences between budget and actual was not documented.
4. A physical inventory is not performed. In addition, a perpetual inventory is not maintained.

<u>Recommendations</u>

1. The ASB should, at a minimum, make their deposits 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. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.

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. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at end of each close out. The starting point will be from a physical inventory count and from there any items sold should be deducted from the count and any items purchased should be added to the count. This perpetual inventory counts should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.

Godinez Fundamental High School

<u>Observations</u>

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

1. Based on the review of the disbursement procedures, it was noted that four of 25 disbursements tested were not approved prior to transactions 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.
2. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, four of six vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
3. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
4. A physical inventory is not performed. In addition, a perpetual inventory is not maintained.
5. A master ticket log is not being used by the sites to account for all tickets on hand and used during the year.
6. During our review of the tested month's financial statements, it was noted that the $600 petty cash/change fund is not included on the ASB balance sheet.

<u>Recommendations</u>

1. 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.
2. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
3. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success, or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.
4. The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at end of each close out. The starting point will be from a physical inventory count and from there any items sold should be deducted from the count and any items purchased should be added to the count. This perpetual inventory counts should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.
5. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
6. The site needs to ensure that all cash accounts are correctly stated on their balance sheet in order to accurately state the ASB assets and to prevent an overstatement or understatement of assets.

Saddleback High School

Observations

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

1. Based on the review of the cash receipting procedures, it was noted that 14 of 47 deposits tested was not deposited in a timely manner. The delay in deposit ranged from approximately 11 to 20 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Funds submitted to the ASB bookkeeper via Deposit Worksheet by advisors are not conducted by two individuals simultaneously. Not having a second person present creates an opportunity for cash to be misappropriated.
3. Based on the review of the disbursement procedures, it was noted that ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, 12 of 25 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASB.
4. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
5. Three of three ticket sales report forms tested were incomplete. The forms did not have an explanation of why there was an overage or a shortage.
6. During our review of the tested month's financial statements, it was noted that the $600 petty cash/change fund is not included on the ASB balance sheet.

Recommendations

1. The ASB should, at a minimum, make their deposits 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. It is recommended that the ASB revise their deposit count procedures to have two people perform the count together and both sign-off on the cash count sheet or that a video monitoring system be utilized that is monitored frequently to deter misappropriation of cash.
3. All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
4. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success, or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

5. All ticket sales report form must be completely filled out at the end of each event. The form is important because it shows whether or not all the monies that should have been raised and turned in actually were based on the price of the ticket and number sold. The form is also used to document overages and shortages. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the event.
6. The site needs to ensure that all cash accounts are correctly stated on their balance sheet in order to accurately state the ASB assets and to prevent an overstatement or understatement of assets.

Lorin Griset Academy

<u>Observations</u>

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

1. Based on the review of the disbursement procedures, it was noted that one of two disbursements tested was not approved prior to 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.
2. Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

<u>Recommendations</u>

1. 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.
2. The revenue potential form is a vital internal control tool; it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success, or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2018

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APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE COUNTY OF ORANGE

The following information concerning Orange County (the "County") is included only for the purpose of supplying general information regarding the area served by the District. The Bonds are not a debt of the County.

Introduction

The District is located in the cities of Santa Ana, Irvine, Newport Beach, Costa Mesa, Orange and Tustin in the County. The City was incorporated on June 1, 1886 and the city charter adopted in 1952 establishing a council-manager form of government. The City is the County seat and the second largest city in the County, comprising approximately 27.3 square miles. The City Council is comprised of seven members consisting of the Mayor and six Councilmembers. Councilmembers are nominated from one of six geographic wards in the City and then elected citywide. The City Councilmembers serve a four-year term and are limited to three consecutive terms. The Mayor is directly elected at-large and has term limits of no more than four (4) two-year terms. The Mayor Pro Tem is nominated and elected from amongst the seated council.

The County, established in 1889 from a portion of Los Angeles County, is located in the southwestern portion of the state of California and is sandwiched between Los Angeles County to the north and San Diego County to the south. The Pacific Ocean borders the County to the west, including 42 miles of coastline, San Bernardino County borders the County to the north-east and Riverside County lies directly east of the County. The County comprises 789 square miles and is the third most populous county in the State and the sixth most populous county in the United States. The County is governed by a five-member Board of Supervisors, each representing a geographic area composed of approximately 600,000 residents. The five Supervisors are elected by the voters of their district to four-year terms.

Population

The following table shows historical population statistics for the cities in the County as well as the County since 2014.

POPULATION
Cities of the County and the County of Orange
Calendar Years 2014 through 2018

	2014	2015	2016	2017	2018
Aliso Viejo	50,144	50,279	50,341	50,384	51,950
Anaheim	352,146	354,532	355,692	356,502	357,084
Brea	42,475	43,292	43,606	44,776	44,890
Buena Park	82,716	82,943	83,042	83,926	83,995
Costa Mesa	112,516	113,874	114,102	115,012	115,296
Cypress	49,162	49,356	49,535	49,705	49,978
Dana Point	33,496	33,509	33,643	33,897	34,071
Fountain Valley	56,519	56,657	56,730	56,916	56,920
Fullerton	140,805	141,377	141,918	143,499	144,214
Garden Grove	175,475	175,944	176,285	176,784	176,896
Huntington Beach	192,845	194,229	196,564	201,981	202,648
Irvine	244,281	251,470	257,181	267,097	276,176
Laguna Beach	23,371	23,453	23,509	23,248	23,309
Laguna Hills	30,665	30,698	30,736	31,829	31,818
Laguna Niguel	65,272	65,551	65,637	65,288	65,377
Laguna Woods	16,311	16,309	16,329	16,575	16,597
La Habra	61,721	61,905	62,003	62,451	62,850
Lake Forest	79,929	80,723	83,376	83,414	84,845
La Palma	15,953	15,986	16,006	15,933	15,948
Los Alamitos	11,691	11,706	11,741	11,860	11,863
Mission Viejo	94,948	95,939	96,763	95,985	95,987
Newport Beach	85,110	85,026	85,045	86,207	87,182
Orange	140,208	140,722	140,761	140,981	141,952
Placentia	51,894	52,055	52,292	52,772	52,755
Rancho Santa	48,464	48,575	48,636	49,301	49,329
San Clemente	65,364	65,754	65,904	65,009	65,543
San Juan Capistrano	35,732	35,935	36,118	36,624	36,759
Santa Ana	337,201	339,591	339,997	337,843	338,247
Seal Beach	24,832	24,881	24,924	25,959	25,984
Stanton	39,225	39,401	39,560	39,500	39,470
Tustin	79,485	80,635	82,015	82,291	82,344
Villa Park	5,918	5,926	5,945	5,944	5,951
Westminster	92,771	93,083	93,375	94,353	94,476
Yorba Linda	66,892	67,329	67,632	68,781	69,121
Balance of County	121,546	123,731	125,209	126,342	129,278
County Total	3,005,537	3,028,645	3,046,943	3,198,968	3,221,103

Based on 2010 Census benchmark and Population Estimates for Cities, Counties, and State.
Source: California State Department of Finance.

Employment

The table below provides the California Employment Development Department's estimates of total annual civilian nonagricultural wage and salary employment by number of employees in each major industry in the County from calendar years 2013 through 2017.

WAGE AND SALARY EMPLOYMENT
County of Orange
Calendar Years 2013 through 2017[(1)]

Industry Category	2013	2014	2015	2016	2017
Mining and Logging	600	700	600	500	700
Construction	78,400	83,100	91,700	96,900	101,700
Manufacturing	158,000	157,400	157,000	156,400	158,600
Transportation, Warehousing & Utilities	27,500	26,500	26,900	27,600	27,600
Wholesale Trade	79,400	80,900	80,800	80,800	82,000
Retail Trade	145,500	148,500	151,500	152,200	153,400
Financial Activities[(2)]	113,100	113,600	116,100	117,400	119,000
Professional and Business Services	267,300	276,600	286,600	296,200	301,700
Educational and Health Services	186,000	190,800	198,800	203,700	215,700
Leisure and Hospitality	187,800	194,500	203,800	211,800	218,200
Other Services	45,600	47,300	48,900	50,300	50,200
Government	148,700	152,200	156,400	160,100	160,500
Total Nonagricultural[(3)]	1,462,800	1,496,600	1,544,500	1,579,800	1,616,600

(1) All figures are based on a March, 2017 benchmark.
(2) Includes finance, insurance, and real estate.
(3) Figures may not add to total due to independent rounding.
Source: State of California Employment Development Department, Labor Market Information Division.

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The following table summarizes the labor force, employment and unemployment figures for the County, the State and the United States from 2014 through 2018.

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT(1)
County of Orange, State of California and United States
2014 through 2018

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate(2)
2014				
Orange County	1,572,000	1,485,700	86,200	5.5%
California	18,726,400	17,474,600	1,251,800	6.7
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
Orange County	1,588,700	1,518,000	70,700	4.4
California	18,981,800	17,798,600	1,183,200	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
Orange County	1,602,400	1,538,000	64,300	4.0
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
Orange County	1,619,200	1,562,600	56,600	3.5
California	19,312,000	18,393,100	918,900	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
2018				
Orange County	1,619,000	1,572,000	47,500	2.9
California	19,278,000	18,440,000	838,000	4.3
United States	161,900,000	155,213,000	7,091,000	4.4

(1) Data reflects employment status of individuals by place of residence.
(2) Unemployment rate is based on unrounded data.
Source: California State Employment Development Department and U.S. Department of Labor.

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Personal Income

The following tables show the personal income and per capita personal income for the County, the State of California and the United States from 2013 through 2017.

PERSONAL INCOME
County of Orange, State of California, and United States
2013-2017
(Dollars in Thousands)

Year	County of Orange	California	United States
2013	$166,369,802	$1,861,956,514	$14,068,960,000
2014	174,586,467	1,977,923,740	14,801,624,000
2015	188,471,529	2,103,669,473	15,463,981,000
2016	196,920,661	2,197,492,000	16,017,781,000
2017	208,653,019	2,364,129,000	16,820,250,000

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME[(1)]
County of Orange, State of California, and United States
2013-2017

Year	County of Orange	California	United States
2013	$53,451	$48,570	$44,493
2014	55,699	51,134	46,464
2015	59,708	53,949	48,190
2016	62,071	55,987	49,571
2017	65,400	59,796	51,640

[(1)] Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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Major Employers

The following table sets forth the major employers in the County in 2018 in alphabetical order.

MAJOR EMPLOYERS
County of Orange
2018

Employer	***Location***	***Product/Service***
Allergan Inc.	Irvine	Drug manufacturers
American Funds	Irvine	Financial Advisory Services
Anaheim City Hall	Anaheim	Government Offices-City, Village & Twp
Auto Club of Southern California	Costa Mesa	Automobile Services
Boeing Company	Seal Beach	Aerospace Industries
Boeing Company	Huntington Beach	Aircraft-Manufacturers
Broadcom Corporation	Irvine	Semiconductors & related devices
California State University-Fullerton	Fullerton	University
Children's Hospital of Orange County	Orange	Hospital
Disneyland Resort-Anaheim	Anaheim	Resorts
Edwards Lifesciences Corporation	Irvine	Biotechnology Products & Services
Emplicity	Irvine	Business Services
Esterline Technologies Corp	Buena Park	Electronic Equipment & Supplies-Mfrs
Hoag Memorial Hospital Presbyterian	Newport Beach	Hospital
James R. Glidewell Dental Ceramics, Inc.	Irvine	Dentist
Kaiser Permanente Orange	Anaheim	Hospital
Laguna Woods Village Cmnty Ctr	Laguna Woods	Senior Citizens Service
California Department of Media Relations	Anaheim	State Government
Mflex	Irvine	Electronic Equipment & Supplies-Mfrs
St. Joseph Hospital	Orange	Hospital
St. Jude Medical Ctr	Fullerton	Hospital
University of California Irvine Medical Center	Orange	Hospital
University of California, Irvine	Irvine	University
Verizon Communications Inc.	Irvine	Telecommunications Services
Walt Disney Parks and Resorts	Anaheim	Amusement & Theme Parks

Source: America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition. .

Commercial Activity

A summary of taxable sales within the County for years 2012 through 2016 is shown in the following table. Taxable sales for 2017 are not yet available.

TAXABLE SALES
County of Orange
2012-2016
(Dollars in Thousands)

Year	Retail and Food Taxable Transactions	Total Outlets Taxable Transactions
2012	$38,372,456	$55,230,612
2013	40,025,929	57,591,217
2014	41,288,537	60,097,128
2015	41,589,926	61,358,087
2016	42,269,711	62,511,422

Source: "Taxable Sales in California (Sales & Use Tax)" - California State Board of Equalization.

Building Activity

In addition to annual building permit valuations, the numbers of permits for new dwelling units issued each year from 2013 through 2017 are shown in the following tables for the County and the City.

BUILDING PERMIT VALUATIONS
Orange County
2013-2017
(Dollars in Thousands)

	2013	2014	2015	2016	2017
Valuation ($000's)					
Residential	$2,596,543	$2,633,471	$2,826,883	$3,151,640	$3,188,600
Non-Residential	1,578,467	2,000,168	2,203,105	2,495,687	2,090,028
Total	$4,175,009	$4,633,639	$5,029,988	$5,647,327	$5,278,630
Units					
Single Family	3,889	3,646	3,667	4,226	5,097
Multiple Family	6,564	6,990	7,230	7,908	5,197
Total	10,453	10,636	10,897	12,134	10,294

Note: Totals may not add to sum because of rounding.
Source: Construction Industry Research Board.

BUILDING PERMIT VALUATIONS
City of Santa Ana
2013-2017
(Dollars in Thousands)

	2013	2014	2015	2016	2017
Valuation ($000's)					
Residential	$12,233	$29,894	$91,899	$48,386	$82,974
Non-Residential	55,834	101,952	53,993	95,192	68,153
Total	$68,067	$131,847	$145,891	$143,579	$151,128
Units					
Single Family	23	67	27	139	195
Multiple Family	0	24	438	70	10
Total	23	91	465	209	205

Note: Totals may not add to sum because of rounding.
Source: Construction Industry Research Board.

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Santa Ana Unified School District (the "District") in connection with the execution and delivery of $__________ aggregate principal amount of the District's General Obligation Bonds, 2018 Election, 2019 Series A (the "Series A Bonds") and $__________ aggregate principal amount of the District's 2019 General Obligation Refunding Bonds (the "Refunding Bonds" and, together with the Series A Bonds, the "Bonds"). The Series A Bonds are being issued pursuant to a Resolution adopted by the Board of Education of the District on January 22, 2019 (the "Series A Resolution") and the Refunding Bonds are being issued pursuant to a Resolution adopted by the Board of Education of the District on March 27, 2019 (the "Refunding Resolution" and, together with the Series A Resolution, the "Resolutions"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolutions, as applicable.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist RBC Capital Markets, LLC (the "Underwriter") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, 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 4 and 5 of this Disclosure Agreement.

"Bondholder" or "Holder" means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

"Dissemination Agent" shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent (or otherwise by the District), which Agent has evidenced its acceptance in writing. The Dissemination Agent shall be Applied Best Practices, LLC.

"Financial Obligation" shall mean 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 to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Event" means any of the events listed in Section 6 of this Disclosure Agreement.

"Material Events Disclosure" means dissemination of a notice of a Material Event as set forth in Section 6.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at http://emma.msrb.org/, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated ____, 2019 (“Final Official Statement”).

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 9 months after the end of the District’s fiscal year (currently ending June 30), which date would be April 1, commencing with the report for the fiscal year ending June 30, 2019, which would be due on April 1, 2020, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District, in a timely manner, shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District’s Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District’s preceding fiscal year, or current fiscal year, if available at the time of filing the Annual Report (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Adopted general fund budget for the current fiscal year or most recent interim report;

(ii) Assessed valuations, as shown on the most recent equalized assessment roll;

(iii) 20 largest local secured taxpayers as shown on the most recent equalized assessment roll; and

(iv) Secured tax charges and delinquencies, only if the County terminates or discontinues the Teeter Plan within the District.

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

SECTION 6. Reporting of Significant Events.

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.

(iv) Substitution of or failure to perform by any credit provider.

(v) 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 obligated person; or

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

(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, not later than ten (10) Business Days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, adverse tax opinions or 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 of rights to Bondholders;

(iii) Optional, unscheduled or contingent 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 an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional Paying Agent or Trustee or the change of name of a Paying Agent or Trustee; 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 Bondholders.

(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 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the District shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by 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.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the

Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only 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 obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder 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 Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: _________, 2019

SANTA ANA UNIFIED SCHOOL DISTRICT

By:____

Superintendent

Acceptance of duties as Dissemination Agent:

By:____________________________________

Applied Best Practices, LLC

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Ana Unified School District

Name of Issue: $____ General Obligation Bonds, 2018 Election, 2019 Series A and $____ 2019 General Obligation Refunding Bonds

Date of Issuance: _______, 2019

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated ________, 2019. The Issuer anticipates that the Annual Report will be filed by ___________________.

Dated: ___________________________

[ISSUER/DISSEMINATION AGENT]

By:____

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APPENDIX E

ORANGE COUNTY INVESTMENT POLICY STATEMENT

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Orange County Treasurer

2019 Investment Policy Statement

(Approved By B.O.S. 12/18/2018)

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ORANGE COUNTY TREASURER
INVESTMENT POLICY STATEMENT

PURPOSE

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (the "Treasurer") and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133. (All references are to the California Government Code unless otherwise stated.)

I. POLICY STATEMENT

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, the Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each fund.

II. SCOPE

The scope of this Investment Policy Statement applies to all financial assets as indicated in II.1 below.

1. FUNDS

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all monies under the investment authority of the Treasurer, including funds, and subsets of funds for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds that are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds
- Any other funds or new funds created by the County, unless specifically exempted

a) Pooled Funds:

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use of funds by allowing for more efficient cash flows, a reduction in transaction costs, and improved access to the market. In addition to allowing for one pool for all participants, OCIF may also be split into different pools to meet the specific needs of participants such as short-term pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements generally longer than one year. It will be invested primarily in high grade securities.

ii. If a short-term pool is established, it can be established as a single pool or as separate pools depending on the needs of the pool participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities to fulfill the primary goals of safety and liquidity.

b) Specific Investment Accounts:

From time to time, the Treasurer may be asked by the County or a participant's governing board to invest other specific investments or to manage bond proceeds issued by the County, a local school district, voluntary participant, or other local agency. This may include deposits that are set aside for future needs of a long-term nature and may be appropriately invested in longer-term securities, either in a pool or in specific investments as allowed by Government Code. The County or the participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment. Strategies for such deposits may include matching maturities with long-term liabilities.

III. <u>PRUDENCE</u>

Government Code Sections 27000.3 and Section 53600.3 provide that the "prudent investor" standard is to be used by the Treasurer as a fiduciary of public funds. This standard provides that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Treasurer and those delegated staff shall act in accordance with written procedures and the Investment Policy Statement, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

IV. DELEGATION OF AUTHORITY

Annually, the County Board of Supervisors delegates to the Treasurer the authority to invest and reinvest the funds of the County and other depositors as specified in Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.

V. OBJECTIVES

Criteria for selecting investments and the absolute order of priority are:

1. SAFETY

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

a) Credit Risk: Defined as an issuer's ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

b) Market Risk: Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.

2. LIQUIDITY

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

3. YIELD

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

4. MARK-TO-MARKET

Investment pools, as described in Section II, 1 (a) of this Investment Policy Statement, are marked to market. To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a short-term pool will attempt to stabilize at a $1.00 net asset value (NAV). If the ratio of the market value of the short-term pool divided by the book value of the short-term pool is less than $.9975, holdings may be sold as necessary to maintain the NAV above $.9975.

The Treasurer will also act on a "best efforts" basis to keep any short-term pools above $.9975 and will provide the NAV of all pools in the monthly report. However, the $1.00 NAV is not guaranteed or insured by the Treasurer for any pool, including any longer-term pool, nor are the pools registered with the Securities Exchange Commission (SEC).

VI. AUTHORIZED INVESTMENTS

The County is authorized by Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time at his/her discretion. All securities must be U.S. dollar denominated. To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Sections VII and VIII, the pools may invest in the following areas.

1. U. S. TREASURY SECURITIES

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of any individual pool's total assets that can be invested in this category.

2. U. S. GOVERNMENT AGENCY SECURITIES

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of any individual pool's total assets that can be invested in this category including no issuer limit.

3. COMMERCIAL PAPER

Eligible commercial paper shall not exceed 270 days maturity, and shall not exceed 40% of any individual pool's total assets. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) Has total assets in excess of five hundred million dollars ($500,000,000), is organized and operating within the United States as a general corporation and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond.

No more than 5% of any individual pool's total assets may be invested in any one issuer's commercial paper.

4. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank. No more than 20% of any individual pool's total assets may be invested in negotiable certificates of deposit and maximum remaining maturity cannot exceed eighteen months.

5. REPURCHASE AGREEMENTS

Investments in repurchase agreements for the purpose of this Investment Policy Statement means a purchase of securities by the Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

a) Collateralization:

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. No collateral substitutions may be made without prior approval of the Treasurer.

Investments in repurchase agreements are limited to no more than 20% of any individual pool's total assets. Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

6. BANKERS' ACCEPTANCES

Bankers' acceptances, also known as time drafts or bills of exchange, that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

7. MONEY MARKET MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Money market mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets. The Treasurer shall be required to investigate money market mutual funds prior to investing and perform a periodic review, but at least annually thereafter while the funds are invested in the money market mutual fund. At a minimum, approved money market mutual funds shall have met either of the following criteria:

a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.

b) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500,000,000.

8. STATE POOL – LOCAL AGENCY INVESTMENT FUND

The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity. Investments in LAIF shall not exceed the current State limit (currently at $65 million per pool).

9. MUNICIPAL DEBT

Such instruments are defined as being issued by a local or state agency, including:

a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

b) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of a state.

c) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

10. MEDIUM-TERM NOTES

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools and two years for any other pools such as a longer-term pool. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Investments in medium-term notes are limited to no more than 20% of any individual pool's total assets.

11. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The Treasurer shall be required to investigate all local government investment pools prior to investing and perform a quarterly review thereafter while the funds are invested in the pool. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets. No more than 10% of any individual pool's total assets shall be invested in a single investment pool.

12. SUPRANATIONAL SECURITIES

Supranational securities are defined as United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity five years or less, and eligible for purchase and sale within the United States. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT CREDIT RATING RESTRICTIONS

Credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale by the Treasurer within a reasonable amount of time.

Municipal debt issued by the County of Orange, California (as defined in Section VI 9), U.S. Government obligations (as defined in Section VI 1 and VI 2) and State Pool (as defined in Section VI 8), are exempt from the credit rating requirements listed below. Money Market

Mutual funds (as defined in Section VI 7) and Investment Pools (as defined in Section VI 11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO. In addition, all Supranational Securities shall be rated "AA" or higher from all NRSROs that rate the issuer.

The credit ratings referred to in this policy must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's)and Fitch Ratings (Fitch). In addition, all investments, except those noted above, 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required below:

a) <u>Short-term debt ratings:</u>

"A-1" or "SP-1"	S&P
"P-1" or "MIG 1/VMIG 1"	Moody's
"F1"	Fitch

Split ratings below the minimum rating required are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt with remaining maturities of 397 days or less must have no less than an "AA" rating on long-term debt, from each of the NRSROs that rate the issuer.

<u>Long-term debt ratings:</u>
Investments purchased with remaining maturities longer than 397 days, shall have obtained no less than an "AA" rating by all NRSROs that rate the issuer. If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1 or F1 and ratings by all NRSROs that rate the issuer must meet these minimum ratings.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent and have capital of not less than $500 million.

c) Any issuer that has been placed on "Credit Watch-Negative" by a NRSRO will be placed on hold and current holdings reviewed for possible sale within a reasonable period of time unless the following criteria are met and are also approved in writing by the Treasurer prior to purchase:
The issuer has:
(a) an A-1+ or F1+ short-term rating; and
(b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

d) If any issuer is placed on "Credit Watch-Negative" by any NRSRO, all related entities, including parent and subsidiaries, will also be placed on hold and subject to the above requirements.

VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in overconcentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer and periodically reviewed.

1. AUTHORIZED INVESTMENTS AND ISSUER CONCENTRATION

Only debt issued by firms listed on the Office of the Treasurer's Approved Issuer List may be purchased. The following diversification limits will also be applied at the time of purchase of a security.

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (All Pooled Funds Except Short-Term Funds)	Orange County IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities (GSEs)	100%	100%	5 Years	5 Years	397 Days
Municipal Debt	100%	20% Total, no more than 5% in one issuer except 10%- County of Orange	5 Years	3 Years	397 Days
Medium-Term Notes	30%	20% Total, no more than 5% in one issuer	5 Years	2 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	20% Total, no more than 5% in one issuer	5 Years	18 months	397 Days
State of California Local Agency Investment Fund	$65 million per account	State limit (currently $65 million per pool)	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20%	20% Total, no more than 10% in one MMMF account	N/A	N/A	N/A
JPA Investment Pools (JPA)	100%	20% Total, no more than 10% in one JPA Pool	N/A	N/A	N/A
Supranationals	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days

2. MATURITY

a) The weighted average maturity (WAM) of any short-term pool, on a dollar-weighted basis, shall not exceed 60 days.

b) The maximum maturity of any investment purchased will be five years with the exception of investments and investment pools authorized by the Board of

Supervisors or the appropriate legislative body to be invested in longer than five year maturities.

The following restrictions will apply:

Short-term	13 months (397)
Long-term	5 years

c) For purposes of calculating a final maturity date, the earlier of either the final maturity date, pre-refunded date, or mandatory put to tender option date that will be used.

d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

3. DURATION

a) All pools, except short-term pools, shall have a maximum duration of 1.50 years.

IX. PROHIBITED TRANSACTIONS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the Government Code, as may be amended from time to time. No investment prohibited by Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations, or market valuations that are not in compliance with this Investment Policy Statement and cannot be corrected without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

1. The following transactions are prohibited:

a) Borrowing for investment purposes ("Leverage").

b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j) (4) or otherwise.

c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, SOFR or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities which otherwise meet the quality, maturity, and percent limitations assigned to their respective security category, are exempt from this section.

d) Structured Investment Vehicles (SIV).

e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).

f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

X. ETHICS AND CONFLICT OF INTEREST

The Treasurer and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all treasury and investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions, broker dealers, and vendors (“outside entities”) that conduct business with the County of Orange and shall disclose any material financial investment positions in such outside entities.

1. STATEMENT OF ECONOMIC INTEREST FORM 700

The Treasurer, Auditor-Controller, members of the Treasury Oversight Committee, and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County’s Conflict-of-Interest Code.

2. COUNTY’S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.

The County’s Gift Ban Ordinance prohibits the receipt of specified gifts to the Treasurer, Auditor-Controller, and “designated employees” from business entities and individuals that “do business with the County” as that termed in defined in the Ordinance. Under the Ordinance, the term “designated employee” includes every employee of the County who is designated in the County’s Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. For purposes of the Treasurer’s Office, “designated employees” include: the Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all investment staff, all financial/credit analysts, all cash managers, and all accounting and compliance staff. The Treasurer will review this list of “designated employees” periodically and submit any proposed changes to the Board of Supervisors for approval.

XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a “primary” or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations

Code or a "well capitalized" national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section. Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Section 27133(c) of the Government Code prohibits the selection of any broker, brokerage, dealer, or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period.

The Treasurer shall conduct an annual review of each broker/dealer and financial institution's financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall strive to open an application period every two years for all new and existing broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall annually send a copy of the current Investment Policy Statement to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

XII. PERFORMANCE EVALUATION

The Treasurer shall submit monthly, quarterly, and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the pool participants, the County Executive Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31, 40, 72 and 84, the Treasurer shall provide financial information on investments for the County's Comprehensive Annual Financial Report.

XIII. SAFEKEEPING

All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCIF or the specific pool name as its registered owner except for municipal debt issued by the County of Orange and privately placed with the County Treasurer in which case the investments shall have the Orange County Treasurer on behalf of the OCIF as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer (this does not apply to money market funds or investment pools). The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity, and other pertinent information.

XIV. MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

XV. INTERNAL CONTROLS

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's Office. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code Sections 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Department’s Accounting/Compliance Unit. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

1. INVESTMENT PROCEDURES

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this investment policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of all Treasury and Investment personnel.

XVI. EARNINGS AND COSTS APPORTIONMENT

The Treasurer determines the interest earnings for the respective pools on an accrual basis. Accrual basis interest earnings and Treasury administrative fees (see below) are allocated to each individual pool participant based upon their average daily balance on deposit with the Treasurer. The actual cash distribution is generally paid in the months following.

As authorized by Government Code Section 27013, the Treasurer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as an eligible administrative cost. These investment administrative costs will be deducted from any interest or income, prior to distribution to the pool participant. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise this investment administrative fee charged in accordance with Government Code Section 27013. The Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. As of the first working day of the following period, the pool participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs. The Treasurer’s monthly report will state the current estimated fees charged to participants.

XVII. VOLUNTARY PARTICIPANTS

Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Government Code Section 53684 and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of Government Code Section 27136, and the agency's understanding that investment administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. The Treasurer shall approve or disapprove such agency’s request in writing. Upon the Treasurer’s approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer’s Investment Pool will be invested in the OCIF and shall be invested by the Treasurer in accordance with this Investment Policy Statement, as amended from time to time. The local agency’s authorized representative will execute an agreement with the Treasurer. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest local agency’s excess funds which have been deposited for investment with the Treasurer.

XVIII. WITHDRAWAL

As required by Government Code Sections 27000.3, 27133(h), 27136 and 53684(c), withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer or designee. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer or designee shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury.

XIX. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on, in order of importance, preservation of capital, liquidity, and yield.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund’s performance.

XX. INVESTMENT POLICY STATEMENT REVIEW

This Investment Policy Statement shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to for review and approval by, the Board of Supervisors in an open session.

XXI. FINANCIAL REPORTING

The monthly Treasurer’s Investment Report and all compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Auditor-Controller Internal Audit, the Auditor-Controller, the Treasury Oversight Committee, the presiding judge of the Superior Court, the director or director executive officer and Treasurer or other official responsible for the funds of any Local Agency who has investments in the OCIF as allowed by Government Code Sections 53607, 53646, and 53686.

All reports filed by the Treasurer in accordance with Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement will also be filed by the Treasurer in accordance with Government Code 53646(b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

XXII. LEGISLATIVE CHANGES

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

XXIII. DISASTER RECOVERY PROGRAM

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office, and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of all uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

INVESTMENT POLICY STATEMENT
GLOSSARY

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy Statement. The definitions included herein do not modify any of the terms of this Investment Policy Statement or applicable law.

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

ADJUSTABLE RATE NOTE: (See Floating Rate Note)

AGENCY SECURITIES: (See U.S. Government Agency Securities)

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

AVERAGE LIFE: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): (See Receivable-Backed Securities)

BANKERS' ACCEPTANCE (BA): Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALLABLE BONDS: Bonds that may be redeemed by the issuing company prior to the maturity date.

CALL PRICE: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK: The risk to a bondholder that a bond may be redeemed prior to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD or NCD): A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less.

CONSUMER RECEIVABLE-BACKED BONDS: (See Receivable-Backed Securities)

CONVEXITY: A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

CREDIT OUTLOOK: (See Rating Outlook)

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CREDIT WATCH: indicates that a company's credit is under review and credit ratings are subject to change.

*+ (positive)	Credit is under review for possible upgrade.
*- (negative)	Credit is under review for possible downgrade.
*	Credit is under review, direction uncertain.

COUPON: The rate at which a bond pays interest.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FEDERAL FUNDS RATE: Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FITCH, INC: (see Nationally Recognized Statistical Rating Organization)

FIXED-INCOME SECURITIES: Securities that return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, London Interbank Offered Rate (LIBOR), Secured Overnight Financing Rate (SOFR) etc.).

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTERNAL CONTORLS: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

INVESTMENT COMPANY ACT OF 1940: Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTES (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five-year maturity range. MTNs issued by banks are also called "bank notes."

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC: (See Nationally Recognized Rating Services)

MUNICIPAL DEBT: Bonds, notes and other securities issued by a state, municipality or county.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON-CALLABLE: Bond that cannot be called at the option of the issuer.

OFFER PRICE: The price asked by a seller of securities.

PAR or PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an individual or institutional investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

PRIME RATE: The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

RATING OUTLOOK: The potential direction of the credit rating assigned by a NRSRO for a specific company.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REFUNDED BOND: A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REPURCHASE AGREEMENT (REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

RULE 2a-7 OF THE INVESTMENT COMPANY ACT: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day average maturity on investments, to help maintain a constant net asset value of one dollar ($1.00).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SINKING FUND: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

STANDARD & POOR′S CORPORATION: (See Nationally Recognized Rating Services)

STRUCTURED INVESTMENT VEHICLE (SIV): A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

SUPRANATIONAL: An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

(Price appreciation) + (Dividends paid) + (Capital gains) = Total Return

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U. S. GOVERNMENT AGENCY SECURITIES: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.
>
> **Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

UNIFORM NET CAPITAL RULE: SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

VARIABLE RATE NOTE: (See Floating Rate Note)

VOLATILITY: A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

YIELD TO CALL (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Paying Agent on behalf thereof) 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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 nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

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.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

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

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in St. Paul, Minnesota. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in St. Paul, Minnesota, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.