PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 30, 2016

NEW ISSUE – FULL BOOK-ENTRY

RATINGS: Standard & Poor's: "AA"
Moody's: "Aa1"
(See "RATINGS" herein)

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

$95,000,000*
BONDS OF SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1 OF THE IRVINE UNIFIED SCHOOL DISTRICT (GENERAL OBLIGATION BONDS, 2016 ELECTION, SERIES 2016A)

Dated: Date of Delivery **Due: September 1 as on the inside cover page**

This cover page contains 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 making an informed investment decision.

The Bonds of the School Facilities Improvement District No. 1 of the Irvine Unified School District (General Obligation Bonds, 2016 Election, Series 2016A) (the "Bonds"), are being issued by the Irvine Unified School District (the "School District") on behalf of School Facilities Improvement District No. 1 of the Irvine Unified School District ("Improvement District No. 1"). The Bonds were authorized at an election of the registered voters of Improvement District No. 1 held on June 7, 2016, at which 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of not-to-exceed $319,000,000 principal amount of general obligation bonds of Improvement District No. 1 to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities and costs related thereto, as approved by the voters, for schools in Improvement District No. 1.

The Bonds are general obligation bonds of the School District issued on behalf of Improvement District No. 1 and are payable solely from *ad valorem* property taxes levied and collected by the County of Orange (the "County") on taxable property within Improvement District No. 1. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property subject to taxation within Improvement District No. 1, without limitation of rate or amount (except as to certain personal property which is taxable at limited rates).

Interest on the Bonds accrues from the date of their delivery and is payable semiannually on September 1 and March 1 of each year, commencing March 1, 2017. The Bonds are issuable as fully registered Bonds in denominations of $5,000 principal amount or any integral multiple thereof. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, as designated Paying Agent, to The Depository Trust Company, New York, New York ("DTC") for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Bonds. See APPENDIX F—"BOOK-ENTRY-ONLY SYSTEM" herein.

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

Maturity Schedule
(see inside cover page)

The Bonds were sold by competitive bid on October __, 2016 to _________ (the "Purchaser"). The Bonds are offered when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the School District by its counsel and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel. The Bonds, in book-entry form, will be available for delivery through the facilities of the Depository Trust Company in New York, New York on or about October 25, 2016.

Dated: October __, 2016.

* Preliminary, subject to change.

MATURITY SCHEDULE

$_________
BONDS OF SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE IRVINE UNIFIED SCHOOL DISTRICT
(GENERAL OBLIGATION BONDS, 2016 ELECTION, SERIES 2016A)

Base CUSIP†: _____

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

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IRVINE UNIFIED SCHOOL DISTRICT

Board of Education

Paul Bokota, *President*
Ira Glasky, *Clerk*
Lauren Brooks, *Member*
Michael Parham, *Member*
Sharon Wallin, *Member*

District Administrators

Terry L. Walker, *Superintendent of Schools*
John Fogarty, *Assistant Superintendent, Business Services*
Kelvin Okino, *Executive Director of Facilities Planning*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

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

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Paying Agent

U.S. Bank National Association
Los Angeles, California

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

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Section 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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 Improvement District No. 1 and the School District herein.

Certain information set forth herein, other than that provided by the School District, has been obtained from sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the School District. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of Improvement District No. 1 or the School District since the date hereof.

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

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

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$95,000,000[*]
BONDS OF SCHOOL FACILITIES IMPROVEMENT DISTRICT NO. 1
OF THE IRVINE UNIFIED SCHOOL DISTRICT
(GENERAL OBLIGATION BONDS, 2016 ELECTION, SERIES 2016A)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides information in connection with the sale of the Bonds of the School Facilities Improvement District No. 1 of the Irvine Unified School District (General Obligation Bonds, 2016 Election, Series 2016A) (the "Bonds").

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

The School District

The School District is a unified school district organized under the laws of the State of California (the "State"). It was established in 1972, unified in 1973, and is located almost entirely within the City of Irvine, California, with a small portion of the School District located in the City of Tustin, California. The School District has a population of approximately 33,200 K-12 students in 22 elementary schools, three K-8 schools, six middle schools, five comprehensive high schools and one alternative education high school.

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

Improvement District No. 1

The School Facilities Improvement District No. 1 of the Irvine Unified School District ("Improvement District No. 1") is approximately 22.67 square miles in size, representing approximately 36.6% of the total area of the School District. The parcels within Improvement District No. 1 represent approximately 53% of the total assessed valuation of property within the School District and are primarily residential parcels. There are approximately 42,899 taxable parcels within Improvement District No. 1. See "TAX BASE FOR REPAYMENT OF THE BONDS" and "IMPROVEMENT DISTRICT NO. 1" herein, and APPENDIX A hereto.

Sources of Payment for the Bonds

The Bonds are general obligation bonds of the School District issued on behalf of Improvement District No. 1 and are payable solely from *ad valorem* property taxes levied and collected by the County of Orange (the "County") on taxable property located within Improvement District No. 1. The Board of Supervisors of the County (the "County Board") is empowered and obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within Improvement District No. 1 subject to taxation without limitation of rate or amount (except as to certain personal property which is taxable at limited rates). See "THE BONDS—Security and Sources of Payment" herein.

[*] *Preliminary, subject to change.*

Purpose of Issue

The Bonds are being issued to finance the renovation, acquisition, construction, repair, and equipping of classrooms, schools, sites, and facilities and costs related thereto, for schools in Improvement District No. 1, as approved by the voters at the June 7, 2016 Election.

Description of the Bonds

Form and Registration. The Bonds will be issued in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. See "THE BONDS—Description of the Bonds" and APPENDIX F—"BOOK-ENTRY ONLY SYSTEM." In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Bond Resolution (defined herein).

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds under the DTC system (the "Beneficial Owners") in the denominations of $5,000 principal amount or any integral multiple thereof.

Redemption. The Bonds are subject to optional redemption as described herein. See "THE BONDS—Redemption" herein.

Payments. Interest on the Bonds accrues from the date of delivery of the Bonds (the "Date of Delivery") and is payable semiannually on each March 1 and September 1 (each a "Bond Payment Date"), commencing March 1, 2017. Principal on the Bonds is payable in the amounts and years as set forth on the inside cover page hereof. Payments of the principal of and interest on the Bonds will be made by U.S. Bank National Association, the designated paying agent, bond registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement through DTC Participants (defined herein) to the Beneficial Owners of the Bonds. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM."

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), based on existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. See "TAX MATTERS" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and other applicable laws, and pursuant to a resolution adopted by the Board of Education of the School District acting on behalf of Improvement District No. 1. See "THE BONDS—Authority for Issuance" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to the validity by Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about October 25, 2016.

Continuing Disclosure

The School District will covenant for the benefit of bondholders and the beneficial owners of the Bonds to make available certain financial information and operating data relating to the School District and Improvement District No. 1 and to provide notices of the occurrence of certain enumerated events, in compliance with S.E.C. Rule 15c2-12(b)(5). The specific nature of the financial information and operating data to be made available and of the events for which notice will be provided is set forth in APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Forward-Looking Statements

When used in this Official Statement and in any continuing disclosure by the School District, in any press release and in any oral statement made with the approval of an authorized officer of the School District, or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Assistant Superintendent, Business Services, Irvine Unified School District, 5050 Barranca Parkway, Irvine, California 92604, telephone: (949) 936-5000. The School District may impose a charge for copying, mailing and handling.

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 so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the School District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the School District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the School District since the date hereof. 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.

Capitalized terms used but not otherwise defined herein will have the meaning assigned to such terms by the Bond Resolution (defined herein).

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and in accordance with other applicable laws, including Chapter 2 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (collectively, the "Act"), and pursuant to a resolution adopted by the Board of Education of the School District, acting on behalf of Improvement District No. 1 on September 13, 2016 (the "Bond Resolution").

The Bonds received authorization at an election held on June 7, 2016, by an affirmative vote of 55% or more of the votes cast by eligible voters within Improvement District No. 1 to issue $319,000,000 of general obligation bonds (the "Authorization"). The Bonds represent the first issuance of bonds within the Authorization.

Security and Sources of Payment

The Bonds are general obligation bonds of the School District issued on behalf of Improvement District No. 1, payable solely from *ad valorem* taxes levied on property within Improvement District No. 1. The County Board is empowered and obligated to annually levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property within Improvement District No. 1 subject to taxation by Improvement District No. 1 without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the fund designated as the "School Facilities Improvement District No. 1 of the Irvine Unified School District General Obligation Bonds, 2016 Election, Series 2016A Debt Service Fund" (the "Debt Service Fund"). The Debt Service Fund is held by the County and is required by the Act to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and will hold the Debt Service Fund, the Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same becomes due and payable, shall be transferred by the Paying Agent to DTC for remittance of such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The rate of the annual *ad valorem* taxes levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in Improvement District No. 1 and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in Improvement District No. 1 may cause the annual tax rate to fluctuate. Economic and other factors beyond the School District's control, such as economic recession, deflation of land values, a relocation out of Improvement District No. 1 or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within Improvement District No. 1 and necessitate a corresponding increase in the annual tax rate in such Improvement District No. 1. The School District has other general obligation bonds outstanding payable from *ad valorem* taxes levied on taxable property within the School District, including the taxable property within Improvement District No. 1. For further information regarding Improvement District No. 1's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF THE BONDS" herein.

Description of the Bonds

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. The Beneficial Owners who purchase ownership interests in the Bonds will not receive certificates representing their interest in the Bonds.

Interest on the Bonds accrues from their date of delivery, and is payable semiannually on March 1 and September 1 of each year commencing March 1, 2017. Interest on the Bonds shall be computed on the basis of a 360-day year of twelve 30-day months. Each Bond shall bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Bond Payment Date to that Bond Payment Date, inclusive, in which event it shall bear interest from such Bond Payment Date, or unless it is authenticated on or before February 15, 2017, in which event it shall bear interest from the Date of Delivery. The Bonds are issuable in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds mature on September 1, in the years and amounts set forth on the inside cover page hereof.

Paying Agent

U.S. Bank National Association, Los Angeles, California, will act as the Paying Agent for the Bonds. As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices required under the Bond Resolution only to DTC and not to the Beneficial Owners.

The School District has no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership of interests in the Bonds under DTC's book-entry system, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds. See APPENDIX F—"BOOK-ENTRY ONLY SYSTEM" herein.

Payment

The principal of the Bonds will be payable in lawful money of the United States of America to the registered owner thereof, upon the surrender thereof at the principal office of the Paying Agent. The interest on the Bonds will be payable in lawful money to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the 15th day of the month preceding any Bond Payment Date (a "Record Date"), whether or not such day is a business day, such interest to be paid by check or draft mailed on such Bond Payment Date to such registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent for that purpose. The interest payments on the Bonds will be made in immediately available funds (e.g., by wire transfer) to any registered owner of at least $1,000,000 of outstanding Bonds, who shall have requested in writing such method of payment of interest on the Bonds prior to the close of business on the Record Date immediately preceding any Bond Payment Date.

Redemption

Optional Redemption.* The Bonds maturing on or before September 1, 2026 are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after September 1, 2027 are subject to redemption prior to their respective stated maturity dates, at the option of the School District, from any source of available funds, in whole or in part, on any date on or after September 1, 2026, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

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* *Preliminary, subject to change.*

Selection of Bonds for Redemption. Whenever provision is made for the optional redemption of Bonds and less than all Bonds are to be redeemed, the Paying Agent, upon written instruction from the School District, shall select Bonds for redemption from one or more maturities as directed by the School District. Within a maturity, the Paying Agent shall select Bonds for redemption by lot in such manner as the Paying Agent shall determine; provided 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. So long as the Bonds are registered to DTC or its nominee, notices of redemption will be sent only to DTC in the manner provided for in its procedures and will not be sent by the Paying Agent to the Beneficial Owners.

Notice of any redemption of Bonds will be given by the Paying Agent by first class mail, postage prepaid to each Owner of the Bonds at the addresses appearing on the Bond registration books at least 30 but not more than 60 days prior to the redemption date; provided, however, as long as all of the Outstanding Bonds are held in book-entry form, any such redemption notice may be delivered in such manner as provided for or agreed to by DTC. In the case of any optional redemption, the Paying Agent shall mail a notice of redemption only following receipt of written instructions from the School District to mail such notice. Such notice of redemption 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 of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice of redemption 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 thereof, together with the interest accrued to the redemption date in the case of the Bonds, and that from and after the redemption date, interest with respect thereto shall cease to accrue. Such notice of redemption (and related notices) may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed thereon or on the Bonds.

In case of the redemption of all the Bonds of any one maturity then Outstanding, notice of redemption shall be given by mailing as provided in the Bond Resolution, except that any such notice of redemption need not specify the serial numbers of the Bonds of such maturity.

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

Neither failure to receive nor any defect in any such notice of redemption so given shall affect the sufficiency of the proceedings for the redemption of the affected Bonds.

Payment of Redeemed Bonds. When notice of redemption has been given, substantially as described above, and when the amount necessary for the payment of principal of and premium, if any, is set aside for the purpose in the Debt Service Fund, the Bonds designated for redemption will become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at said redemption price out of the Debt Service Fund, and no interest will accrue on such Bonds called for redemption after the redemption date specified in such notice, and the owners of said Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the premium, if any, thereon only to the Debt Service Fund.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered. Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the County, the School District and Improvement District No. 1 will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption. If on the applicable designated redemption date, money for the redemption of the Bonds to be redeemed, together with interest accrued to such redemption date, is held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof will have been given substantially as described above, then from and after such redemption date, interest with respect to the Bonds to be redeemed shall cease to accrue and become payable.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys shall be held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and, accrued interest with respect thereto to the date fixed for redemption, then such Bonds will no longer be deemed Outstanding and shall be surrendered to the Paying Agent for cancellation.

Defeasance

All or any portion of the outstanding maturities of the Bonds may be defeased at any time prior to maturity in the following ways:

(a) Cash: by irrevocably depositing an amount of cash which together with amounts on deposit in the Debt Service Fund, is sufficient to pay any or all Bonds Outstanding, including all Principal and interest and premium, if any; or

(b) Government Obligations: by irrevocably depositing in the Debt Service Fund or with an escrow bank noncallable United States Obligations (defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge any or all Bonds (including all Principal and interest represented thereby and redemption premiums, if any) at or before their maturity date;

then, notwithstanding that any Bonds so defeased shall not have been surrendered for payment, all obligations of the School District with respect to the Bonds so defeased shall cease and terminate, except only the obligation of the School District and the Paying Agent to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of such Bonds not so surrendered and paid all sums due with respect thereto.

"United States Obligations" means direct and general obligations of the United States of America, or obligations that are fully and unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidence of direct ownership or proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claims of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated the same as the underlying United States Obligations.

Registration, Transfer and Exchange of Bonds

So long as any of the Bonds remain outstanding, the School District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Bond Resolution (the "Bond Register"). Subject to the provisions of the Bond Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Bond Resolution. Payment of or on account of the principal of and premium, if any, and interest on any Bond will be made only to or upon the order of that person; neither the School District nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Bond Resolution. All such payments will be valid and effectual to satisfy and discharge the School District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

Any Bond may be exchanged for Bonds of like tenor, 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 the Bond at the principal office of the Paying Agent together with an assignment executed by the 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 will 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 Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the Paying Agent shall sign and authenticate and deliver Bonds in accordance with the provisions of the Bond Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of Improvement District No. 1, evidencing the same debt, and entitled to the same security and benefit under the Bond Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer shall be canceled by the Paying Agent. The School District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the School District may have acquired in any manner whatsoever, and those Bonds shall be promptly cancelled by the Paying Agent. As requested, written reports of the surrender and cancellation of Bonds shall be made to the School District by the Paying Agent. The cancelled Bonds shall be retained for a period of time, then returned to the School District or destroyed by the Paying Agent as directed by the School District.

Neither the School District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 15th business day next preceding any date of selection of Bonds to be redeemed and ending with the close of business on the Bond Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

Sources of Funds	
Principal Amount of Bonds	$
[Net] Original Issue [Premium/Discount]	___
Total Sources	$___
Uses of Funds	
Building Fund	$
Debt Service Fund[(1)]	
Underwriter's Discount	___
Total Uses	$___

(1) Includes capitalized interest through __________ 1, 20__.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions):

Period Ending September 1	*Annual Principal Payment*	*Annual Interest Payment[(1)]*	*Total Debt Service*
Totals			

(1) Interest payments will be made semiannually on March 1 and September 1 of each year, commencing March 1, 2017.

APPLICATION OF PROCEEDS OF BONDS

Building Fund

The proceeds of the sale of the Bonds, other than any premium on the Bonds and amounts applied to pay underwriter's discount and debt service on the Bonds, shall be deposited in the "School Facilities Improvement District No. 1 of the Irvine Unified School District General Obligation Bonds, 2016 Election, Series 2016A Building Fund" (the "Building Fund") and shall be applied only for the purposes for which the Bonds are issued. Any interest earnings on moneys held in the Building Fund shall be retained in the Building Fund.

Debt Service Fund

Any premium received by the School District upon the sale of the Bonds, other than any premium on the Bonds and amounts applied to pay underwriter's discount, and the *ad valorem* property taxes levied by the County for the payment of the Bonds, when collected, will be deposited into the Debt Service Fund. Any interest earnings on moneys held in the Debt Service Fund shall be retained in the Debt Service Fund. If, after all of the Bonds have been redeemed or paid and otherwise cancelled, there are moneys remaining in the Debt Service Fund or otherwise held in trust for the payment of the redemption price of the Bonds, said moneys shall be transferred to the general fund of the School District as provided and permitted by law.

Permitted Investments

Under California law, the School District is generally required to pay all moneys received from any source into the County treasury to be held on behalf of the School District. The proceeds from the sale of the Bonds to the extent of the principal amount thereof, will be deposited in the County treasury to the credit of the Building Fund and shall be accounted for, together with the proceeds of other bonds of the School District separately from all other School District and County funds. Such proceeds shall be applied solely for the purposes for which the Bonds were authorized. Any premium or accrued interest received by the School District will be deposited in the Debt Service Fund of the School District in the County treasury. Interest and earnings on each fund will accrue to that fund.

All funds held by the County Treasurer (the "County Treasurer") in the Building Fund and the Debt Service Fund shall be on behalf of the School District, in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX G—"ORANGE COUNTY INVESTMENT POLICY STATEMENT" for a description of the permitted investments under the investment policy of the County.

Moneys in the Building Fund and the Debt Service Fund are expected to be invested through the County's commingled investment pool. See "ORANGE COUNTY EDUCATIONAL INVESTMENT POOL" herein.

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL

The County Board of Supervisors (the "County Board") approved the current County Investment Policy Statement (the "Investment Policy") on December 15, 2015 (see Appendix G—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 County 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 County 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 County 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 Auditor-Controller's Internal Audit Division 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.)

The 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 August 31, 2016, the balance in the School District's funds was $147,280,605.87 or 3.82% of the Pool. The pool is invested 98% in securities rated in the two highest rating categories. As of August 31, 2016, the Pool has a weighted average maturity of 349 days and the year-to-date net yield is 0.66%.

The following represents the composition of the Pool as of August 31, 2016:

Type of Investment	***Market Value (In thousands)***	***% of Pool***
U.S. Government Agencies	$ 2,445,815	63.48%
U.S. Treasuries	884,848	22.97%
Medium-Term Notes	225,779	5.86%
Money Market Funds	75,593	1.96%
Municipal Debt	72,261	1.88%
Certificates of Deposit	148,229	3.85%
Total	$ 3,852,525	100%

Neither the School 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 County 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.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS

The principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE BONDS—Security and Sources of Payment" herein.) Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, Propositions 98 and 111, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes and the ability of the School

District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds. The taxes levied by the County for payment of the Bonds were approved by the voters of Improvement District No. 1 in compliance with Article XIIIA, Article XIIIC, and all applicable laws.

Article XIIIA

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

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

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

Unitary Property

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

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

Article XIIIB

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

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

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

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

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

Articles XIIIC and XIIID

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

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

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

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

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

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

Proposition 46

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

Proposition 39

On November 7, 2000, California voters approved 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 amendments 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 State 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 School 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. Prior to the approval of Proposition 39, 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 acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote of Proposition 39 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 places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require such bonds may be issued only if the tax rate per $100,000 of taxable property value projected to be levied as the result of any single election would not exceed $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 State Legislature and approval by the Governor.

Propositions 98 and 111

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

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

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

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

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

Proposition 1A and Proposition 22

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

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

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

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

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes 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 imposes 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 will be 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 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $608,000 for joint filers).

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

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, is a proposed constitutional amendment initiative that has qualified for the November 8, 2016 general election in California. Proposition 55 would extend the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30. Under Proposition 55, the Proposition 30 income tax rate increases on high-income Californians would not expire at the end of 2018, as scheduled under current law. The proposal would extend the income tax rate increases through 2030. Tax revenue received under Proposition 55 would be allocated 89% to K-12 schools and 11% to community colleges. Under the proposed constitutional amendment, the sales tax rate increase under Proposition 30 would not be extended. The School District can make no representation as to whether Proposition 55 will be approved.

Proposition 2

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

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

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

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

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

Jarvis v. Connell

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

Future Initiatives

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

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

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 Improvement District No. 1. The information in the tables below has been provided by sources which the School District believes to be reliable but which the School District has not independently reviewed. The School District does not guarantee the accuracy of such information. The Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in Improvement District No. 1. The School District's general fund is not a source for the repayment of the Bonds.

Ad Valorem Property Taxation

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in Improvement District No. 1 as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

State law exempts from taxation $7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) is allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

Assessed Valuations

The assessed valuation of property in Improvement District No. 1 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. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS" herein.

Certain classes of property, such as churches, colleges, not for profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within Improvement District No. 1 has a net taxable assessed valuation for fiscal year 2015-16 of $23,729,727,500. The following table shows the local secured, utility, unsecured and total assessed valuation of Improvement District No. 1 for fiscal years 2011-12 through 2015-16.

Table 1
ASSESSED VALUATION
Fiscal Years 2011-12 through 2015-16
Irvine Unified School District
School Facilities Improvement District No. 1

Year	*Assessed Valuation*[(1)]
2011-12	$19,982,610,097
2012-13	20,311,476,006
2013-14	20,880,889,496
2014-15	22,206,028,185
2015-16	23,729,727,500

(1) Local secured assessed valuation less all exemptions except homeowners which is reimbursed by the state.
Source: California Municipal Statistics, Inc.

Economic and other factors beyond the School 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 man-made disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within Improvement District No. 1. Any such reduction would result in a corresponding increase in the annual tax rates levied by the County to pay the debt service with respect to Improvement District No. 1's general obligation bonds. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS—Article XIIIA" and "THE BONDS—Security and Sources of Payment" herein.

Drought. On January 17, 2014, the State Governor (the "Governor") declared a state-wide Drought State of Emergency. As of such date, the State faced water shortfalls due to the driest year in recorded State history; the State's rivers and reservoirs were below their record low levels, and manual and electronic readings recorded the water content of snowpack at the highest elevations in the State (chiefly in the Sierra Nevada mountain range) at about 20% of normal average for the winter season. As part of his State of Emergency declaration, the Governor directed State officials to assist agricultural producers and communities that may be economically impacted by dry conditions. 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. On April 1, 2015, the Governor issued an executive order mandating certain temporary conservation measures, which were implemented by means of an emergency regulation adopted by the Water Board on May 5, 2015. The temporary conservation measures have been extended and amended by subsequent executive orders of the Governor and Water Board regulations. Most recently, on May 9, 2016, the Governor issued an executive order mandating the Department of Water Resources, the Water Board and the California Public Utilities Commission to update and extend temporary water restrictions through end of January 2017, and to take actions to transition to permanent, long-term improvements in water use. Following the Governor's executive order, on May 18, 2016, the Water Board adopted a localized "stress test" approach of water conservation, under which local urban water agencies are required to ensure a three-year supply of water assuming three years of drought conditions. Agencies that project a water shortage at the end of the three-year period under the stress test are required to implement conservation measures through January 2017 equal to the percentage of water shortage projected.

The School District cannot make any representation regarding the effects that the current drought has had, or, if it should continue, may have on the value of taxable property within Improvement District No. 1, or to what extent the drought could cause disruptions to economic activity within the boundaries of Improvement District No. 1.

Appeals and Reductions of Assessed Valuation

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

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.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Article XIIIA" herein. Such reductions are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIIIA.

No assurance can be given that property tax appeals or unilateral County reductions in the future will not significantly reduce the assessed valuation of property within Improvement District No. 1.

Assessed Valuation and Parcels by Land Use

The following table shows the local secured assessed valuation and parcels by land use in fiscal year 2015-16 in Improvement District No. 1.

Table 2
FISCAL YEAR 2015-16 ASSESSED VALUATION AND PARCELS BY LAND USE
Irvine Unified School District
School Facilities Improvement District No. 1

	Fiscal Year 2015-16 Assessed Valuation(1)	*% of Total*	*No. of Parcels*	*% of Total*
Non-Residential:				
Commercial/Office	$ 3,115,755,537	13.13%	441	1.03%
Vacant Commercial	46,034,121	0.19	125	0.29
Industrial	686,780,878	2.89	201	0.47
Vacant Industrial	23,088,202	0.10	24	0.06
Government/Social/Institutional	0	0.00	2,004	4.67
Miscellaneous	5,365,809	0.02	25	0.06
Subtotal Non-Residential	$ 3,877,024,547	16.34%	2,820	6.57%
Residential:				
Single Family Residence	$ 12,307,364,768	51.86%	22,855	53.28%
Condominium	5,517,311,899	23.25	14,542	33.90
2+ Residential Units/Apartments	1,976,449,522	8.33	85	0.20
Vacant Residential	51,576,764	0.22	2,597	6.05
Subtotal Residential	$ 19,852,702,953	83.66%	40,079	93.43%
Total	$ 23,729,727,500	100.00%	42,899	100.00%

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

Assessed Valuation Per Parcel of Single-Family Homes

The following table shows the number of parcels of single-family homes with various assessed value ranges in fiscal year 2015-16 located in Improvement District No. 1. There are 22,855 single family parcels within Improvement District No. 1 with an average assessed valuation in fiscal year 2015-16 of $538,498 and a median assessed value of $473,183.

Table 3
FISCAL YEAR 2015-16 ASSESSED VALUATION PER PARCEL OF SINGLE-FAMILY HOMES
Irvine Unified School District
School Facilities Improvement District No. 1

	No. of Parcels	*Fiscal Year 2015-16 Assessed Valuation*	*Average Fiscal Year 2015-16 Assessed Valuation*	*Median Fiscal Year 2015-16 Assessed Valuation*
Single Family Residential	22,855	$12,307,364,768	$538,498	$473,183

2015-16 Assessed Valuation	*No. of Parcels*(1)	*% of Total*	*Cumulative % of Total*	*Total Valuation*	*% of Total*	*Cumulative % of Total*
$0 - $49,999	3	0.013%	0.013%	$ 144,500	0.001%	0.001%
$50,000 - $99,999	776	3.395	3.408	63,759,595	0.518	0.519
$100,000 - $149,999	903	3.951	7.359	109,364,980	0.889	1.408
$150,000 - $199,999	666	2.914	10.273	117,586,191	0.955	2.363
$200,000 - $249,999	1,211	5.299	15.572	274,084,239	2.227	4.590
$250,000 - $299,999	1,684	7.368	22.940	464,665,658	3.776	8.366
$300,000 - $349,999	1,910	8.357	31.297	620,005,576	5.038	13.403
$350,000 - $399,999	1,808	7.911	39.208	676,901,028	5.500	18.903
$400,000 - $449,999	1,656	7.246	46.454	703,608,924	5.717	24.620
$450,000 - $499,999	1,604	7.018	53.472	759,986,541	6.175	30.795
$500,000 - $549,999	1,348	5.898	59.370	706,963,164	5.744	36.540
$550,000 - $599,999	1,262	5.522	64.892	724,075,593	5.883	42.423
$600,000 - $649,999	1,147	5.019	69.910	716,855,363	5.825	48.248
$650,000 - $699,999	1,171	5.124	75.034	789,652,580	6.416	54.664
$700,000 - $749,999	1,000	4.375	79.409	724,392,926	5.886	60.549
$750,000 - $799,999	903	3.951	83.360	699,048,210	5.680	66.229
$800,000 - $849,999	684	2.993	86.353	563,829,344	4.581	70.811
$850,000 - $899,999	559	2.446	88.799	488,634,099	3.970	74.781
$900,000 - $949,999	494	2.161	90.960	456,074,114	3.706	78.487
$950,000 - $999,999	337	1.475	92.435	327,743,434	2.663	81.150
$1,000,000 and greater	1,729	7.565	100.000	2,319,988,709	18.850	100.00
Total	22,855	100.000%		$ 12,307,364,768	100.000%	

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

Taxation of State-Assessed Utility Property

A portion of property tax revenue of Improvement District No. 1 is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. The assessed value of unitary and certain other State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including Improvement District No. 1) according to statutory formulae generally based on the distribution of taxes in the prior year.

Recent changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, nonutility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The School District is unable to predict the impact of these changes on utility property tax revenues, or whether legislation or 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 Improvement District No. 1 and the School District. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS—Unitary Property."

Alternative Method of Tax Apportionment

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (each a "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 School 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's treasury is the legal depository of the tax collections. The School District will receive 100% of the *ad valorem* property tax to which the School District is entitled irrespective of actual delinquencies in the collection of the tax by the County. In addition, under the Teeter Plan, 100% of the *ad valorem* taxes levied to pay the principal of and interest on the Bonds will be available to pay such amounts, regardless of actual delinquencies in the collection of such 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 55% of the participating revenue districts in the County. In the event the Board of Supervisors of the County is to order discontinuance of its Teeter Plan subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the School District and Improvement District No. 1) for which the County acts as the tax-levying or tax-collecting agency. The School District can provide no assurance that the Teeter Plan will remain in effect over the life of the Bonds.

Tax Levies and Delinquencies

Under the terms of the County's Teeter Plan, Improvement District No. 1 and the School District are paid 100% of the secured tax levy each year by the County and the County takes responsibility for collecting delinquencies and keeps penalties and interest. Accordingly, the School District will receive all amounts levied in each fiscal year for so long as the Teeter Plan remains in effect.

Tax Rates

There are a total of 91 tax rate areas in Improvement District No. 1. The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical Tax Rate Area from fiscal year 2011-12 through fiscal year 2015-16.

Table 4
SUMMARY OF AD VALOREM TAX RATES
TYPICAL TOTAL TAX RATES (TRA 1-000)[(1)]
Irvine Unified School District
School Facilities Improvement District No. 1

	Fiscal Year 2011-12	*Fiscal Year 2012-13*	*Fiscal Year 2013-14*	*Fiscal Year 2014-15*	*Fiscal Year 2015-16*
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Metropolitan Water District	.00370	.00350	.00350	.00350	.00350
Total All Property	1.00370%	1.00350%	1.00350%	1.00350%	1.00350%
Irvine Ranch Water District I.D. No. 221	.01700%	.01700%	.01700%	-	-
Irvine Ranch Water District I.D. No. 121	.01311	.01311	.01311	-	-
Irvine Ranch Water District I.D. No. 2	.00001	-	-	-	-
Irvine Ranch Water District I.D. No. 102	.00001	-	-	-	-
Irvine Ranch Water District I.D. No. 225	-	-	-	.01500%	.01500%
Irvine Ranch Water District I.D. No. 125	-	-	-	.01300	.01300
Total Land Only	.03013%	.03011%	.03011%	.02800%	.02800%

(1) Fiscal year 2015-16 assessed valuation of Tax Rate Area 26-087 is $3,786,434,485 which is 16.0% of Improvement District No. 1's total Fiscal Year 2015-16 assessed valuation.
Source: California Municipal Statistics, Inc.

Largest Property Owners

The following table shows the 20 largest property taxpayers in Improvement District No. 1 as determined by secured assessed valuation in fiscal year 2015-16.

Table 5
FISCAL YEAR 2015-16 LARGEST LOCAL SECURED PROPERTY TAXPAYERS
Irvine Unified School District
School Facilities Improvement District No. 1

	Property Owner	*Primary Land Use*	*2015-16 Assessed Valuation*	*% of Total*(1)
1.	The Irvine Company	Various Property Holdings	$ 1,339,168,417	5.64%
2.	Irvine Apartment Communities	Apartments	443,951,851	1.87
3.	Jamboree Center 1-5 LLC	Commercial	388,042,610	1.64
4.	Park Place Michelson LLC	Apartments	326,966,647	1.38
5.	Capital Research Co.	Commercial	167,080,289	0.70
6.	Century Centre LLC	Commercial	136,042,114	0.57
7.	SRI Nine Main Plaza LLC	Commercial	135,154,915	0.57
8.	LBA IV-PPI LLC	Commercial	123,931,913	0.52
9.	MCP Main Street Village	Apartments	116,035,650	0.49
10.	Kia Motors America Inc.	Commercial	94,110,873	0.40
11.	WNG Charter Apartments	Apartments	90,610,423	0.38
12.	John Hancock Life Insurance Co.	Commercial	87,291,898	0.37
13.	Camden Jamboree	Apartments	82,079,389	0.35
14.	Oak Glen Apartments LP	Apartments	69,624,254	0.29
15.	RLJ EM Irvine LP	Commercial	54,007,779	0.23
16.	Berhringer Harvard	Apartments	52,079,809	0.22
17.	Von Karman Income	Industrial	49,004,828	0.21
18.	Kelvin Apartments LLC	Apartments	44,436,204	0.19
19.	Woodbridge Meadows Apartments	Apartments	39,514,217	0.17
20.	Hines Global REIT 2300	Commercial	38,942,183	0.16
			$ 3,878,076,263	16.34%

(1) 2015-16 local secured assessed valuation: $23,729,727,500.
Source: California Municipal Statistics, Inc.

Debt Obligations

Set forth below is a direct and overlapping debt report regarding Improvement District No. 1 (the "Debt Report") prepared by California Municipal Statistics, Inc. for debt issued as of September 1, 2016. The Debt Report is included for general information purposes only.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement District No. 1 in whole or in part. Such long-term obligations generally are not payable from revenues of the School District (except as indicated) nor are they necessarily obligations secured by land within Improvement District No. 1. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps Improvement District No. 1; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in Improvement District No. 1; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in Improvement District No. 1, as determined by multiplying the total outstanding debt of each agency by the percentage of Improvement District No. 1's assessed valuation represented in column 2.

Table 6
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Irvine Unified School District
School Facilities Improvement District No. 1

Fiscal Year 2015-16 Assessed Valuation: $23,729,727,500

	% Applicable	Debt 9/1/16
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Metropolitan Water District	0.968%	$ 899,111
Irvine Ranch Water District Improvement Districts	20.174 – 33.999	117,580,126
Irvine Unified School District Community Facilities District No. 86-1	34.059	18,385,274
City of Irvine Community Facilities District No. 2005-2	100.000	15,605,000
City of Irvine 1915 Act Bonds	1.974 – 100.	55,906,006
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$208,375,517
OVERLAPPING GENERAL FUND DEBT:		
Orange County General Fund Obligations	4.755%	$ 4,146,031
Orange County Pension Obligation Bonds	4.755	15,953,654
Orange County Board of Education Certificates of Participation	4.755	705,675
TOTAL OVERLAPPING GENERAL FUND DEBT		$20,805,360
COMBINED TOTAL DEBT		$229,180,877 (1)

Ratios to 2015-16 Local Secured Assessed Valuation:
Total Overlapping Tax and Assessment Debt 0.88%
Combined Total Debt 0.97%

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

IMPROVEMENT DISTRICT NO. 1

General Description

The Bonds are being issued by the School District on behalf of Improvement District No. 1. Improvement District No. 1 was established by the Board of Education of the School District pursuant to a resolution of said Board of Education adopted on September 13, 2016, and the Act.

With respect to the authorization for the Bonds, the Board of Education ordered an election of the registered voters residing in the territory of Improvement District No. 1, which was held on June 7, 2016. At this election, 60.2% of the voters voting on the measure approved the issuance of not-to-exceed $319,000,000 principal amount of general obligation bonds for Improvement District No. 1.

Location and Territory

Improvement District No. 1 is approximately 22.67 square miles in size, representing approximately 36.6% of the total area of the School District. The parcels within Improvement District No. 1 represent approximately 53% of the total assessed valuation of property within the School District and are primarily residential parcels. See APPENDIX A hereto.

THE SCHOOL DISTRICT

Introduction

The School District was established in 1972, unified in 1973, and is located almost entirely within the City of Irvine, California, with a small portion of the School District located in the City of Tustin, California. The School District covers approximately 62 square miles in Orange County, California. The School District operates 22 elementary schools, three K-8 schools, six middle schools, five comprehensive high schools and one alternative education high school. The School District's projected enrollment for fiscal year 2016-17 is approximately 33,200 students. The School District is consistently rated as one of the best school districts in California. See APPENDIX C—"GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF IRVINE AND THE COUNTY OF ORANGE." The School District's pupil/teacher ratio for fiscal year 2016-17 is approximately 31:1 for grade levels Kindergarten, 30:1 for grade levels 1 through 3, 31:1 for grade levels 4 through 6 and 31:1 for grade levels 7 through 12.

Board of Education

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

Table 7
IRVINE UNIFIED SCHOOL DISTRICT
Board of Education

Name	*Term Expires*
Paul Bokota, President	November 2016
Ira Glasky, Clerk	November 2018
Lauren Brooks, Member	November 2016
Michael Parham, Member	November 2016
Sharon Wallin, Member	November 2018

Source: The School District.

Superintendent and Administrative Personnel

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

Terry L. Walker, Superintendent. Terry L. Walker has been the superintendent of the School District since July 2011. He is the seventh superintendent in the School District's history. Prior to taking the position, Mr. Walker served as the Assistant Superintendent of Human Resources.

Kelvin Okino, Executive Director of Facilities Planning and Construction. Kelvin Okino has been the Executive Director of Facilities Planning and Construction since April 2015. Before joining IUSD, Kelvin served as Area Manager for Vanir Construction Management, Inc., where he managed large construction projects throughout the Inland Empire and parts of Orange County and Arizona. Prior to that, he was Vice President of Bernard Brothers, Inc. and Senior Project Manager for the JCM Group. He has more than 28 years of construction management experience, working with nineteen K-12 school districts and five community college districts.

John Fogarty, Assistant Superintendent, Business Services. John Fogarty has been the Assistant Superintendent of Business Services since November 2011. Prior to his employment with the School District, Mr. Fogarty lead fiscal operations in the Brea Olinda Unified School District. He began his career in finance as a cost accountant for the Los Angeles Health Care Department in 1990 before taking on the role of controller and fiscal analyst for Electronic Data Systems in 1995. He was hired as manager of District Fiscal Services for the Orange County Department of Education (the "OCDE") in 1999, where he went on to serve as Coordinator of District Fiscal Services, Administrator of Business Services and Director of Business Services with the OCDE before becoming an Assistant Superintendent with the Brea Olinda Unified School District in February 2008.

Employee Relations

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

As of June 30, 2016, the School District employed 1,508 full-time certificated personnel as well as 1,081 full-time classified employees and 228 full-time management staff. The teachers of the School District (certificated personnel) are represented by the Irvine Teachers Association. Classified employees are represented by the California School Employees Association Chapter 517, and 36 of the management staff are represented by the Irvine Supervisory Association. The School District's contracts with all three labor organizations expired June 30, 2016 and negotiations are ongoing for all three for the current year.

District employees are represented by three employee bargaining units as follows:

Table 8
IRVINE UNIFIED SCHOOL DISTRICT
Labor Bargaining Units

Labor Organization	*Number of Employees In Organization*	*Contract Expiration Date*
Irvine Teachers Association	1,508	June 30, 2016[1]
California School Employees Association Chapter 517	1,081	June 30, 2016[1]
Irvine Supervisory Association	36	June 30, 2016[1]

[1] Members are working under the terms of their expired contracts.
Source: The School District.

Retirement System

This section contains certain information relating to the Public Employees' Retirement System ("PERS") and the State Teachers' Retirement System ("STRS"). The information is primarily derived from information produced by PERS and STRS, their independent accountants and their actuaries. The School District has not independently verified the information provided by PERS and STRS and makes no representations nor expresses any opinion as to the accuracy of the information provided by PERS and STRS.

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

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

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

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

Table 9
MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)

Effective Date	*STRS Members Hired Prior to January 1, 2013*	*STRS Members Hired After January 1, 2013*
July 1, 2014	8.15%	8.150%
July 1, 2015	9.20	8.560
July 1, 2016	10.25	9.205

Source: A.B. 1469.

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

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

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

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

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

The School District's contribution to STRS was \$11,391,348 in fiscal year 2014-15. The School District estimates that it contributed \$23,422,549 to STRS in fiscal year 2015-16 and has budgeted a \$26,039,348 contribution in fiscal year 2016-17. For additional information regarding the School District's participation in STRS, see Note 13 to the School District's Audited Financial Statements for fiscal year 2014-15 attached as Appendix B hereto.

The State also contributes to STRS, which was in an amount equal to 4.891% of teacher payroll for fiscal year 2015-16. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Pursuant to A.B. 1469, the State contribution rate will increase to 6.328% in fiscal year 2016-17. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

PERS. Classified employees working four or more hours per day are members of PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement

Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2014 included 1,580 public agencies and schools (representing more than 2,500 entities). PERS acts as the common investment and administrative agent for the member agencies. The State and school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The School District is currently required to contribute to PERS at an actuarially determined rate, which is 13.888% of eligible salary expenditures for fiscal year 2016-17. Participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 6% of their respective salaries for fiscal year 2016-17. See "System-*California Public Employees' Pension Reform Act of 2013*" herein.

The School District's contribution to PERS was $5,061,699 in fiscal year 2014-15. The School District estimates that it contributed $5,520,430 to PERS in fiscal year 2015-16 and has budgeted a PERS contribution of $6,501,854 in fiscal year 2016-17. For additional information regarding the School District's participation in PERS, see Note 13 to the School District's Audited Financial Statements for fiscal year 2014-15 attached as Appendix B hereto.

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

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

Table 11
FUNDED STATUS
STRS (Defined Benefit Program) and PERS (School Pool)
(Dollar Amounts in Millions)[1]
Fiscal Years 2010-11 through 2014-15

STRS

Fiscal Year	*Accrued Liability*	*Value of Trust Assets (MVA)[2]*	*Unfunded Liability (MVA)[2][3]*	*Value of Trust Assets (AVA)[4]*	*Unfunded Liability (AVA)[4]*
2010-11	$208,405	$147,140	$68,365	$143,930	$64,475
2011-12	215,189	143,118	80,354	144,232	70,957
2012-13	222,281	157,176	74,374	148,614	73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200

PERS

Fiscal Year	*Accrued Liability*	*Value of Trust Assets (MVA)[2]*	*Unfunded Liability (MVA)[2]*	*Value of Trust Assets (AVA)[4]*	*Unfunded Liability (AVA)[4]*
2010-11	$58,358	$45,901	$12,457	$51,547	$6,811
2011-12	59,439	44,854	14,585	53,791	5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	--[5]	--[5]
2014-15[6]	73,325	56,814	16,511	--[5]	--[5]

(1) Amounts may not add due to rounding.
(2) Reflects market value of assets.
(3) Excludes assets allocated to the SBPA reserve.
(4) Reflects actuarial value of assets.
(5) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.
(6) On April 19, 2016, the PERS Finance & Administration Committee approved the K-14 school district contribution rate for fiscal year 2016-17 and released certain actuarial information to be incorporated into the June 30, 2015 actuarial valuation to be released in summer 2015.

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

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. The following are certain of the actuarial assumptions adopted by the STRS Board with respect to the STRS Defined Benefit Program Actuarial Valuation for fiscal year 2014-15: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," 7.50% investment rate of return (net of investment and administrative expenses), 4.50% interest on member accounts, 3.75% projected wage growth, and 3.00% projected inflation. According to the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2014, the future revenue from contributions and appropriations for the STRS Defined Benefit Program is projected to be sufficient to finance its obligations. This finding reflects the scheduled contribution increases specified in AB 1469 and is based on the valuation assumptions and the valuation policy adopted by the STRS Board.

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

On March 14, 2012, the PERS Board voted to lower the PERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "PERS Discount Rate") from 7.75% to 7.5%. As one consequence of such decrease, the annual contribution amounts paid by PERS member public agencies, including the School District, have been increased by 1 to 2% for miscellaneous plans and by 2 to 3% for safety plans beginning in fiscal year 2013-14. On November 17, 2015, the PERS Board voted to reduce the PERS Discount Rate to 6.5% over a period of 20 years. This change could result in increased contributions over time from both employers and employees.

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

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

The School District can make no representations regarding the future program liabilities of STRS, or whether the School District will be required to make additional contributions to STRS in the future above those amounts required under A.B. 1469. The School District can also provide no assurances that the School 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 (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

GASB Statement Nos. 67 and 68. On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replaced GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impacted 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 School District is not known at this time.

The reporting requirements under GASB No. 68 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the School District, took effect for the fiscal year beginning July 1, 2014. The School District's net pension liability at June 30, 2015 calculated pursuant to GASB No. 68 was estimated to be $192,473,435. In order to record the School District's proportionate share of net pension liability in accordance with GASB No. 68, there was a restatement to the beginning net position of Governmental Activities. See Notes 1 and 13 to the School District's Audited Financial Statements for Fiscal Year 2014-15 attached as Appendix B hereto.

Post-Employment Benefits

The School District provides post-employment health care benefits, in accordance with School District employment contracts, to eligible employees who retire from the School District on or after attaining age 55 with at least 15 years of service to the School District for certificated employees, at least 10 years of service to the School District for classified employees and at least 5 years of service to the School District for administrative employees. The School District contributes a portion of the amount of premiums incurred by retirees and their dependents, provided that the amount does not exceed that of a full-time bargaining unit member. If the premium for the retiree is greater than for a full-time bargaining unit member, the retiree shall pay the difference. The School District contribution for fiscal year 2016-17 is $10,143 annually for all eligible retirees, though such amount is reduced by contributions from retirees with spousal or family coverage. As of July 1, 2015, there were 172 retirees and beneficiaries receiving postemployment benefits and 2,189 active plan members. For fiscal year 2014-15, the School District contributed $3,868,300 for postemployment benefits, all of which was used for current premiums.

The School District had a net obligation in respect of post-employment health care benefits of $17,212,772 as of June 30, 2014 and $18,597,972 as of June 30, 2015. See Note 11 to the fiscal year 2014-15 audited financial statements of the School District, which are attached hereto as Appendix B.

Pursuant to the most recent valuation report (the "Valuation Report") provided to the School District by an independent consultant the actuarial liability for School District-paid retiree benefits was $45,449,200 as of June 30, 2015. This amount represents the present value of all benefits expected to be paid by the School District for its current and future retirees based on certain assumptions set forth in the Valuation Report. According to the Valuation Report, the School District's unfunded accrued liability (the "UAL"), which represents the unfunded present value of all benefits earned to date, as of June 30, 2015, was $45,449,200. The School District has not established an irrevocable trust to prefund any of the accrued liability under the plan. The School District's annual required contribution, which is the amount required to be contributed to meet the cost of benefits accruing in the current year and to pay off the UAL in 30 years, was $5,502,300 for fiscal year 2014-15.

Insurance

The School District is exposed to various risks of loss related to torts, thefts, damage to School District assets, errors and omissions, employee injuries and natural disasters. Significant School District losses are covered by commercial insurance for all programs. The School District is self-insured in medical and dental claims, and purchases commercial insurance for specific loss ($100,000), and aggregate loss (125% of anticipated claims). The property and liability program for which the School District has a self-insured retention level of $25,000, has a primary level of commercial insurance of $25,000 to $1,000,000, and the School District obtains excess property liability coverage through a property and liability joint powers authority, the Southern California Regional Liability Excess Fund ("SCR").

The District is a member of the Irvine Child Care Project ("ICCP"), and the Coastline Regional Occupation Program ("CROP," and together with ICCP and SCR, the "JPAs"), and SCR. The relationships between the School District, the pools, and the JPAs are such that they are not component units of the School District for financial reporting purposes. These entities have budgeting and financial reporting requirements independent of member units. Audited financial statements are generally available from the respective entities. During the year ended June 30, 2016, the School District made payments of $1,218,110 and $1,086,347 to CROP and SCR, respectively.

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.

The following is a summary of the insurance policies carried by the School District as of June 30, 2016:

Insurance Program Company Name	***Type of Coverage***	***Limits***
Workers Compensation Program	Workers Compensation	Self-insured to $350,000
Excess Workers Compensation	ACE Limited	$350,000 - $1,000,000
		$1,000,000 – Unlimited
Property and Liability Program	Commercial Insurance	$25,000 - $1,000,000
Primary Coverage	Gulf/Traveler's	
Excess Property and Liability	Liability	$1,000,000 - $25,000,000
Program SCR	Property	$1,000,000 - $100,000,000

SCHOOL DISTRICT FINANCIAL INFORMATION

The information in this section concerning the School District's General Fund 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 of or interest on the Bonds is payable from the General Fund of the School District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS—Security and Sources of Payment."

Accounting Practices

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

School District Budget

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

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

For budgets submitted on July 1, the County Superintendent will (a) examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance, (b) determine if the budget allows the district to meet its current obligations, and (c) 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 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 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. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the County Superintendent must notify the State Superintendent of Public Instruction (the "State Superintendent") of all school districts whose budget has been disapproved.

Each district whose budget has been disapproved must revise and readopt its budget by September 8, reflecting changes in projected income and expenses since July 1, including responding to the County Superintendent's recommendations. The County Superintendent must determine if the budget conforms to the standards and criteria applicable to final district budgets, and, not later than October 8, must 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.

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

At a minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through

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

Pursuant to State law, the School District adopted its fiscal year 2016-17 budget on June 28, 2016 (the "2016-17 Adopted Budget"), which set forth revenues and expenditures such that appropriations during fiscal year 2016-17 were not projected to exceed the sum of revenues plus the July 1, 2016 beginning fund balance. See "SCHOOL DISTRICT FINANCIAL INFORMATION—Current Financial Condition" below.

State Funding of Education

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

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

Table 12 below reflects the School District's historical ADA for fiscal years 2012-13 through 2016-17.

Table 12
AVERAGE DAILY ATTENDANCE
Fiscal Years 2012-13 through 2016-17
Irvine Unified School District

Year	*Average Daily Attendance*[1]	*Annual Change in ADA*
2012-13	28,313	N/A
2013-14	29,443	1,130
2014-15	30,606	1,163
2015-16	31,451	845
2016-17[2]	32,390	939

(1) Reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year. Excludes ADA of District funded charter schools.
(2) ADA for fiscal year 2016-17 reflects attendance projection based on estimate at the time of the approval of the 2016-17 Adopted Budget.
Source: The School District.

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

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

The Base Grants per unit of ADA for each grade span are as follows: (i) \$6,845 for grades K-3; (ii) \$6,947 for grades 4-6; (iii) \$7,154 for grades 7-8; and (iv) \$8,289 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

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

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

Table 13 below shows a breakdown of the School District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2013-14 through 2016-17.

Table 13
ADA, ENROLLMENT AND EL/LI ENROLLMENT
Fiscal Years 2013-14 through 2016-17
Irvine Unified School District

	Average Daily Attendance[1]				*Enrollment*	
Fiscal Year	***K-3***	***4-6***	***7-8***	***Total ADA***	***Total Enrollment***[2]	***EL/LI Enrollment***[2]
2013-14	9,004	7,121	4,626	20,751	21,336	7,826
2014-15	9,448	7,293	4,756	21,497	22,244	8,346
2015-16	9,599	7,625	4,990	22,214	23,056	9,235
2016-17[3]	9,750	7,957	5,224	22,931	23,856	N/A

(1) Reflects P-2 ADA for fiscal years 2013-14 through 2015-16.
(2) Fiscal years 2013-14 through 2015-16 reflect certified enrollment as of the fall census day (the first Wednesday in October), which is reported to the California Longitudinal Pupil Achievement Data System ("CALPADS") in each school year and used to calculate each school district's unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the California Department of Education. CALPADS figures exclude preschool and adult transitional students. For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students was expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment was based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students is based on a rolling average of such district's EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
(3) Based on 2016-17 Adopted Budget.
Source: The School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The School District believes that it will qualify for the ERT add-on for fiscal year 2016-17.

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

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

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

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

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP. The School District has updated its LCAP for fiscal year 2016-17.

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

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

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

Historical General Fund Financial Information

Table 14 below summarizes the School District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for fiscal years 2010-11 through 2014-15. The figures in Table 14 below are taken from the School District's audited financial statements. See APPENDIX B—"FISCAL YEAR 2014-15 AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT" for further detail on the School District's financial condition as of June 30, 2015.

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Table 14
IRVINE UNIFIED SCHOOL DISTRICT
Summary of General Fund Revenues, Expenditures and Changes in Fund Balance

	Audited Fiscal Year 2010-11	*Audited Fiscal Year 2011-12*	*Audited Fiscal Year 2012-13*	*Audited Fiscal Year 2013-14*	*Audited Fiscal Year 2014-15*
Revenues:					
General Revenues:					
Revenue Limit/LCFF Sources	$ 145,315,980	$ 148,555,407	$ 165,029,458	$ 183,622,290	$ 201,964,414
Federal Sources	16,552,433	12,804,288	8,664,286	8,193,432	10,342,822
Other State Sources	35,427,781	38,642,617	44,057,877	36,992,283	33,097,040
Other Local Sources	20,005,878	19,919,357	18,963,442	20,823,666	23,490,584
Total Revenues	$ 217,302,072	$ 219,921,669	$ 236,715,063	$ 249,631,671	$ 268,894,860
Expenditures:					
Instruction	$ 135,659,526	$ 142,388,679	$ 144,091,971	$ 154,485,697	$ 172,877,243
Instruction-Related Services	23,901,153	26,338,666	25,443,805	28,264,465	34,538,729
Pupil Services	18,485,562	20,474,866	21,177,793	23,011,715	25,096,490
General Administration	7,242,053	7,328,647	7,703,285	7,748,210	8,079,682
Plant Services	21,493,790	21,837,810	22,725,211	24,665,901	27,054,078
Facility Acquisition and Construction	333,382	299,640	323,205	194,438	307,702
Ancillary Services	2,069,163	1,286,026	1,426,356	1,472,175	1,564,423
Community Services	579,560	694,729	539,443	555,962	645,496
Other Outgo/Other	3,742,220	3,762,275	3,823,017	3,845,281	3,508,676
Total Expenditures	$ 213,506,409	$ 224,411,338	$ 227,254,086	$ 244,243,844	$ 273,672,519
Excess of (Deficiency) of Revenues Over (Under) Expenditures	$ 3,795,663	$ (4,489,669)	$ 9,460,977	$ 5,387,827	$ (4,777,659)
Other Financing Sources (Uses)					
Interfund Transfers in/Other Sources	$ 3,547,226	$ 1,558,767	$ 1,631,465	$ 1,589,355	$ 199,316
Interfund Transfers out/Other Uses	(1,487,285)	(3,686,847)	(1,948,420)	(2,643,176)	(7,600,957)
Total Other Financing Sources (Uses)	$ 2,059,941	$ (2,128,080)	$ (316,955)	$ (1,053,821)	$ (7,406,641)
Net Change in Fund Balance	$ 5,855,604	$ (6,617,749)	$ 9,144,022	$ 4,334,006	$ (12,184,300)
Fund Balance, July 1	56,797,660	51,653,264	45,035,515	54,179,537	58,513,543
Fund Balance, June 30	$ 51,653,264	$ 45,035,515	$ 54,179,537	$ 58,513,543	$ 46,329,243

Source: School District Audited Financial Statements for fiscal years 2010-11 through 2014-15.

Table 15 below compares the School District's General Fund Adopted Budget to its General Fund actual revenues and expenditures for fiscal year 2013-14 and its General Fund Adopted Budget to its General Fund actual revenues and expenditures for fiscal year 2014-15.

Table 15
IRVINE UNIFIED SCHOOL DISTRICT
Comparison of General Fund Budgeted (GAAP Basis) to General Fund Revenues and Expenditures for fiscal years 2013-14 and 2014-15

	Fiscal Year 2013-14		*Fiscal Year 2014-15*	
	Budget	*Audit*	*Budget*	*Audit*
Revenues[1]				
Revenue Limits Sources	$ 183,622,290	$ 183,622,290	$ 201,964,414	$ 201,964,414
Federal	9,754,140	8,193,432	11,674,865	10,342,822
Other State	31,685,762	36,992,283	27,057,598	33,097,040
Other Local	20,836,648	20,823,666	23,494,919	23,490,584
Total Revenues	$ 245,898,840	$ 249,631,671	$ 264,191,796	$ 268,894,860
Expenditures[1]				
Certificated Salaries	$ 117,665,252	$ 117,303,580	$ 133,357,622	$ 133,048,835
Classified Salaries	41,544,416	41,393,740	46,093,156	45,716,291
Employee Benefits	45,373,669	51,265,823	49,914,057	56,085,792
Books and Supplies	22,032,758	10,079,589	25,746,877	13,714,197
Services and Other Operating Expenditures	20,015,152	19,668,498	21,977,210	21,289,071
Capital Outlay	3,254,699	3,226,982	2,899,244	2,872,547
Debt Service	1,004,381	928,734	833,602	568,888
Other Outgo	376,900	376,898	376,898	376,898
Total Expenditures	$ 251,267,227	$ 244,243,844	$ 281,198,666	$ 273,672,519
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (5,368,387)	$ 5,387,827	$ (17,006,870)	$ (4,777,659)
Other Financing Sources				
Interfund Transfers In	$ 1,409,920	$ 1,409,920	$ 67,243	$ 67,243
Other Sources	179,435	175,435	127,073	127,073
Interfund Transfers Out	(2,643,177)	(2,643,176)	(7,600,957)	(7,600,957)
Total Other Financing Sources and Uses	$ (1,053,822)	$ (1,053,821)	$ (7,406,641)	$ (7,406,641)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (6,422,209)	$ 4,334,006	$ (24,413,511)	$ (12,184,300)
Fund Balances, July 1	54,179,537	54,179,537	58,513,543	58,513,543
Fund Balances, June 30	$ 47,757,328	$ 58,513,543	$ 34,100,032	$ 46,329,243

(1) On behalf payments of $5,899,766 and $6,135,795 in fiscal years 2013-14 and 2014-15 are included in the actual revenues and expenditures but not in budgeted amounts.
Source: Irvine Unified School District adopted budget for fiscal years 2013-14 and 2014-15 and Audited Financial Statements for fiscal years 2013-14 and 2014-15.

Table 16 below sets forth the School District's General Fund balance sheet for the 2010-11 through 2014-15 fiscal years.

Table 16
IRVINE UNIFIED SCHOOL DISTRICT
Summary of Combined General Fund Balance Sheet

	Audited Fiscal Year 2010-11	***Audited Fiscal Year 2011-12***	***Audited Fiscal Year 2012-13***	***Audited Fiscal Year 2013-14***	***Audited Fiscal Year 2014-15***
Assets					
Deposits and Investments	$ 47,697,326	$ 37,193,782	$ 45,673,314	$ 52,912,784	$ 48,748,896
Accounts Receivable	15,318,024	16,795,341	18,272,905	14,365,874	10,620,305
Due from Other Funds	937,793	1,593,933	2,054,485	1,982,538	497,380
Other Current Assets	13,470	13,190	32,198	41,790	39,052
Prepaid Expenditures	288,937	365,929	319,480	384,455	378,737
Stores Inventories	88,396	85,059	76,392	72,062	65,508
Total Assets	$ 64,343,946	$ 56,047,234	$ 66,428,774	$ 69,759,503	$ 60,349,878
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	$ 9,126,877	$ 9,164,571	$ 9,526,612	$ 10,462,336	$ 10,756,858
Due to Other Funds	-	139,865	848,420	279,520	2,752,364
Unearned Revenues	3,563,805	1,707,283	1,874,205	504,104	511,413
Total Liabilities	$ 12,690,682	$ 11,011,719	$ 12,249,237	$ 11,245,960	$ 14,020,635
Fund Balances					
Nonspendable Fund Balances	$ 452,407	$ 529,119	$ 501,678	$ 576,245	$ 567,789
Restricted Fund Balances	5,813,327	5,878,345	6,171,954	12,802,374	8,333,678
Committed Fund Balances	-	-	-	-	-
Assigned Fund Balances	38,887,530	31,828,051	40,505,905	37,534,924	31,924,776
Unassigned	6,500,000	6,800,000	7,000,000	7,600,000	5,503,000
Total Fund Balance	$ 51,653,264	$ 45,035,515	$ 54,179,537	$ 58,513,543	$ 46,329,243
Total Liabilities and Fund Balances	$ 64,343,946	$ 56,047,234	$ 66,428,774	$ 69,759,503	$ 60,349,878

Source: School District Audited Financial Statements for fiscal years 2010-11 through 2014-15.

Current Financial Condition

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

Table 17 below contains the difference between the School District's Adopted General Fund Budget for fiscal year 2015-16 and the unaudited actual results for fiscal year 2015-16. Table 17 also includes the projections from the School District's 2016-17 Adopted Budget for fiscal year 2016-17.

Table 17
IRVINE UNIFIED SCHOOL DISTRICT
Comparison of 2015-16 Adopted General Fund Budget to Unaudited Actual Results for Fiscal Year 2015-16; 2016-17 Adopted Budget[1]

	2015-16 Budget	*Unaudited Actual Results for 2015-16*	*Difference Between 2015-16 Budget and Unaudited Actual Results*	*2016-17 Adopted Budget*
SOURCES				
State Apportionment Sources	$ 238,872,293	$ 237,520,975	(0.5)%	$ 260,024,853
Federal Revenues	10,049,152	11,673,815	16.2	9,783,356
Other State Revenues	42,636,385	55,408,439	30.0	41,742,845
Other Local Revenue	15,834,678	22,647,444	43.0	16,272,847
Total Revenues	$ 307,392,508	$ 327,250,672	6.5%	$ 327,823,901
EXPENDITURES				
Certificated Salaries	$ 140,148,378	$ 146,215,546	4.3%	$ 153,269,880
Classified Salaries	48,818,607	51,563,476	5.6	53,280,322
Employee Benefits	50,197,605	64,405,529	28.3	68,160,909
Books and Supplies	14,000,039	19,163,816	36.9	17,351,550
Services & Operating Expenditures	22,858,391	24,371,900	6.6	22,911,717
Capital Outlay	496,025	2,146,511	333.7	788,873
Direct Support/Indirect Costs/Other Outgo	3,227,642	2,919,761	(9.5)	3,072,455
Total Expenditures	$ 279,746,687	$ 310,786,540	11.1%	$ 318,835,706
Excess of Revenues over (Under) Expenditures	$ 27,645,821	$ 16,464,133		$ 8,988,195
OTHER FINANCING SOURCES				
Operating Transfers In/Out	$ (1,550,586)	$ (4,406,547)		$ (4,174,965)
Other Sources	127,073	127,073		127,073
Total Other sources (uses)	$ (2,683,513)	$ (4,279,474)		$ (4,047,892)
Net Increase (Decrease) in Fund Balance	$ 24,962,308	$ 12,184,658		$ 4,940,303
Fund Balance (Deficit), July 1	46,329,243	46,329,243		58,513,901
Fund Balance (Deficit), June 30	$ 71,291,551	$ 58,513,901		$ 63,454,204

(1) Exclusive of activity in the Deferred Maintenance Fund and the Special Reserve Fund for Other than Capital Outlay.
Source: School District Annual Budget Report for fiscal year 2015-16, unaudited actual results for fiscal year 2015-16 and 2016-17 Adopted Budget.

In the 2016-17 Adopted Budget, the School District projects that General Fund expenditures will exceed revenues by approximately $13.2 million through fiscal year 2018-19, leaving a projected ending General Fund balance of $71,750,617.47 at June 30, 2019. The 2016-17 Adopted Budget assumes that there will be no growth in ADA in the immediate future. If required the School District has a variety of cost-cutting measures that it can implement in order to reduce General Fund expenses in future fiscal years.

State law requires the School District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The School District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the 2016-17 Adopted Budget, the School District projects reserve levels of 6.95%, 2.03% and 2.00% as a percentage of expenditures in fiscal years 2016-17, 2017-18 and 2018-19, respectively. Under SB 858 (as defined below), the School District's future reserves may be capped at 6% of annual expenditures in certain fiscal years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—2016-17 State Budget—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the School District cannot predict the fiscal years in which the cap may apply.

For several fiscal years prior to fiscal year 2013-14, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the School District applies an accrual method of accounting and, accordingly, Tables 14 through 17 do not reflect any deferral of revenues to future fiscal years. The School District does not anticipate needing to borrow funds on a short-term basis in order to have adequate cash on hand to meet expenditures in the current fiscal year, though the School District may borrow from internal funds or from the County Treasurer and Tax Collector on a short-term basis, if needed. See "SCHOOL DISTRICT DEBT STRUCTURE—Short-Term Debt" herein.

Revenue Sources

The School District categorizes its General Fund revenues into four sources: (1) state apportionment funding (this was funded from revenue limit sources through fiscal year 2012-13 and thereafter pursuant to the LCFF); (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

State Apportionment Funding

The primary source of School District funding prior to fiscal year 2013-14 came from the State in the form of base revenue limit funding per unit of ADA. In fiscal year 2013-14, state apportionment funding changed as a result of the LCFF. See "—State Funding of Education." For fiscal years 2013-14 and 2014-15, the School District received $183,622,290 and $201,964,414, respectively, from LCFF sources, representing approximately 73.6% and 75.1%, respectively, of its General Fund revenues. The School District estimates that it received $237,520,975 from LCFF sources in fiscal year 2015-16, representing approximately 72.6% of its General Fund revenues, and has budgeted for receipt of $260,024,853 from LCFF sources for fiscal year 2016-17, representing approximately 79.3% of its General Fund revenues.

Federal Revenues

The federal government provides funding for several School District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, all of which are restricted, comprised approximately 3.3% and 3.8% of General Fund revenues in fiscal years 2013-14 and 2014-15, respectively. Federal revenues are estimated to have been approximately 3.6% of General Fund revenues in fiscal year 2015-16, and are budgeted to comprise approximately 3.0% in fiscal year 2016-17.

Other State Sources

In addition to State apportionment funding discussed above, the School District receives other State revenues ("Other State Sources"). In fiscal years 2013-14 and 2014-15, Other State Sources equaled approximately 14.8% and 12.3%, respectively, of total General Fund revenues. In fiscal year 2015-16, Other State Sources are estimated to have equaled approximately 16.9% of total General Fund revenues, and are budgeted to comprise approximately 12.7% in fiscal year 2016-17.

Other Local Sources

In addition to property taxes, the School District receives additional local sources ("Other Local Sources") from items such as the leasing of property owned by the School District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 8.3% and 8.7% of the total General Fund revenues in fiscal years 2013-14 and 2014-15. Other Local Sources are estimated to have equaled approximately 6.9% of General Fund revenues in fiscal year 2015-16, and are budgeted to comprise approximately 5.0% in fiscal year 2016-17.

Capital Projects Funds

The School District maintains a Capital Facilities Fund, separate and apart from the General Fund, to account for developer fees collected by the School District. The School District's developer fees may be utilized for any capital purpose related to growth. Separate and apart from the General Fund, the School District also maintains a Building Fund to account for general obligation bond proceeds restricted to capital projects, a County Schools Facilities Fund to account for State apportionments provided for the construction and reconstruction of school facilities and a Special Reserve Fund for Capital Outlay to act as a reserve for Board of Education designated construction projects.

Collection of developer fees followed a formal declaration by the Board of Education which addressed the overcrowding of District schools as a result of new development. These fees are collected pursuant to certain provisions of the Education Code of the State. The square-foot amounts are periodically adjusted for inflation and the current developer fee is $3.48 per square foot of habitable space on domestic housing developments. The current developer fee on commercial/industrial developments is $0.56 per square foot. As of June 30, 2016, a balance of $16,600,950 existed in the School District's Capital Facilities Fund and there was a balance of $21,258.739 in the Special Reserve Fund for Capital Outlay. Except for amounts in the Special Reserve Fund for Capital Outlay, which may be expended on one-time non-capital costs other than salaries and benefits, the amounts in these funds are restricted to pay for capital improvements.

The School District has an active community facilities district program in which community facilities districts are formed and issue bonds in new developments, with a portion of such bond proceeds being deposited into Improvement Funds and applied to the acquisition, construction and equipping of School District capital facilities. As of June 30, 2016, the School District had approximately $64,137,254 on deposit in such Improvement Funds, which are restricted to capital improvements.

SCHOOL DISTRICT DEBT STRUCTURE

Long-Term Debt

As of June 30, 2016, the School District had $22,554,942 of long-term debt outstanding. The School District has not incurred into any long-term debt since that date.

A schedule of changes in long-term debt for the year ended June 30, 2016 is as follows:

Table 18
IRVINE UNIFIED SCHOOL DISTRICT
Long-Term Debt

Governmental Activities	*Balance July 1, 2015*	*Additions*	*Deductions*	*Balance June 30, 2016*	*Balance Due In One Year*
Notes Payable	$ 682,350	$ -	$ 333,627	$ 348,723	$ 348,723
Capital Lease	17,436	-	17,436	-	-
Accumulated Vacation-Net	1,109,839	-	112,192	997,647	-
Net OPEB Obligation	18,597,972	5,153,500	2,542,900	21,208,572	-
Total	$ 20,407,597	$ 5,153,500	$ 3,006,155	$ 22,554,942	$ 348,723

Source: The School District.

Additional information regarding the long-term debt and its scheduled repayment is set forth in Note 8 to the School District's 2014-15 Audited Financial Statements attached as Appendix B hereto.

Short-Term Debt

The School District has no short-term debt outstanding and does not expect to issue any short-term debt in fiscal year 2016-17.

STATE OF CALIFORNIA FISCAL ISSUES

The following information concerning the State's budgets has been obtained from publicly available information which the School District believes to be reliable; however, the School District does not guaranty the accuracy or completeness of this information and has not independently verified such information. The following information has been adapted from information provided by the State in connection with its issuance of certain of its bonds, by the Legislative Analyst's Office and by the State Department of Finance.

General Overview

Recent Financial Stress on State Budget. In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the State's financial condition, including large unfunded liabilities now totaling approximately $215 billion for PERS, STRS, the University of California ("UC") Retirement System and the State's and UC's retiree healthcare benefits plans. In addition, the State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State. See "—2016-17 State Budget."

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

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

2016-17 State Budget

2016-17 Budget. On June 27, 2016, the Governor signed into the law the State budget for fiscal year 2016-17 (the "2016-17 Budget"). The following information is drawn from the Department of Finance's summary of the 2016-17 Budget.

The 2016-17 Budget projects, for fiscal year 2015-16, total general fund revenues and transfers of \$117 billion and total expenditures of \$115.6 billion. The State is projected to end the 2015-16 fiscal year with total available reserves of \$7.3 billion, including \$3.9 billion in the traditional general fund reserve and \$3.4 billion in the BSA. For fiscal year 2016-17, the 2016-17 Budget projects a growth in State general fund revenues driven primarily by total general fund revenues of \$120.3 billion and authorizes expenditures of \$122.5 billion. The State is projected to end the 2016-17 fiscal year with total available reserves of \$8.5 billion, including \$1.8 billion in the traditional general fund reserve and \$6.7 billion in the BSA.

As required by Proposition 2, the 2016-17 Budget applies \$1.3 billion towards the repayment of existing State liabilities, including loans from special funds, State and University of California pension and retiree health benefits and settle-up payments to K-14 school districts resulting from an underfunding of the Proposition 98 minimum funding guarantee in a prior fiscal year. Other significant features including measures designed to counteract the effects of poverty, fund various infrastructure improvements, and increase funding for low income housing and homelessness programs.

For fiscal year 2016-17, the 2016-17 Budget sets the minimum funding guarantee for K-14 districts at \$71.9 billion, an increase of \$3.5 billion over the revised level from the prior fiscal year. Significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – \$2.9 billion of Proposition 98 funding to continue the implementation of the LCFF. As a result, the 2016-17 Budget projects total LCFF implementation to be at 96% during fiscal year 2016-17.
- *College Readiness* – \$200 million in one-time Proposition 98 funding to fund a block grant for school districts and charter schools serving high school students. Funds are intended to provide additional services that support access and successful transition to higher education. Allocation of the funding will be based on the number of students in grades 9 through 12 that are English-learners, low-income or foster youth, with no district or charter school receiving less than \$75,000. The 2016-17 Budget also provides \$15 million in one-time Proposition 98 grant funding to support coordinated student outreach by local educational agencies and community college districts aimed at increasing college preparation, access, and success.
- *Teacher Workforce* – \$35 million in one-time funding, including \$25 million of Proposition 98 funding, to provide grants aimed at recruiting additional teachers and streamlining teacher credentialing programs.
- *Charter Schools* – An increase of \$20 million in one-time Proposition 98 funding to support startup costs for new charter schools in 2016 and 2017. The funds are intended to offset the loss of previously available federal funding.
- *Support Systems* – \$20 million in one-time Proposition 98 funding to assist local educational agencies provide academic, behavioral, social and emotional student support services.
- *Truancy and Dropout Prevention* – Proposition 47, approved by voters in November 2014, reduces penalties for certain non-serious and non-violent property and drug offenses, and requires that State expenditures savings resulting from these reduced penalties by invested into K-12 truancy and dropout prevention. The 2016-17 Budget allocates \$18 million of such funding to K-12 local education agencies.

- *Drinking Water* – $9.5 million in one-time Proposition 98 funding to assist school districts that serve isolated or economically disadvantaged areas improve access to safe drinking water.
- *Mandates* – $1.3 billion in one-time Proposition 98 funding to reduce the existing backlog of unpaid reimbursement claims to K-12 local educational agencies for the cost of State-mandated programs. The funding would be provided to local educational agencies on a per-student basis, and would be available to be used at local discretion.

For additional information regarding the 2016-17 Budget, see the State Department of Finance website at www.dof.ca.gov. However, the information presented on such websites is not incorporated herein by reference.

State Dissolution of Redevelopment Agencies

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

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

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

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

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

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

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

Future Actions

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

Litigation Challenging Method of School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768), plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of 62 minor school children, various school districts, the California Association of School Administrators and the California School Boards Association, allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek an order enjoining the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. In a related matter, *Campaign for Quality Education et al. ("CQE") v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the State's education finance system. The court issued a ruling that there was no constitutional right to a particular level of school funding. The court allowed plaintiffs to amend their complaint with respect to alleged violation of plaintiffs' right to equal protection. Both of these cases were dismissed by the trial court and the decision was upheld by an appellate court. It is currently unknown what impact these cases might have on the State's General Fund.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

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

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

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

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Bond Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

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

The proposed form of opinion of Bond Counsel for the Bonds is included in Appendix D hereto.

LEGAL MATTERS

Continuing Disclosure

The School District will covenant for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the School District and Improvement District No. 1 (each an "Annual Report") by not later than nine months following the end of the School District's fiscal years (which shall be April 1 of each year, so long as the School District's fiscal year ends on June 30), commencing with the report for the 2015-16 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of the enumerated events will be filed by the School District with the Electronic Municipal Market Access system maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be made available and to be contained in the notices of enumerated events is set forth in APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Purchaser in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

The School District has not entered into undertakings with respect to the Rule in the last five years. However, several of the community facilities districts which the School District formed and which are operated by employees of the School District have entered into an undertaking with respect to the Rule in the last five years.

The School Board acts as the legislative body of the Irvine Unified School District Community Facilities District 09-1 ("CFD 09-1"), Community Facilities District No. 86-1 of the Irvine Unified School District ("CFD 86-1"), the Irvine Unified School District Community Facilities District No. 06-1 (Portola Springs) ("CFD 06-1") and the Irvine Unified School District Financing Authority (the "Authority").

In connection with CFD 86-1's undertaking to provide continuing disclosure for CFD 09-1's Taxable Revenue Bonds (CFD No. 86-1 Subordinate Special Tax Revenues) Qualified School Construction Bonds (the "2011 Bonds"), CFD 86-1 was late by three days in filing its annual report (including financial statements) for Fiscal Year 2010-11.

In connection with its undertakings to provide continuing disclosure for its Special Tax Revenue Bonds, Series A (the "2005 Bonds") and its Special Tax Revenue Bonds (Group II), Series A (the "2006 Bonds"), the Authority was late by 2 days in filing its annual report and financial statements for Fiscal Year 2010-11 with respect to its 2005 Bonds and 2006 Bonds. Additionally, the annual reports for fiscal years 2010-11 through 2012-13 for the 2006 Bonds did not include required new building permit information.

As described above, the community facilities districts and Authority experienced delays in filing financial reports during the relevant disclosure period. In addition, the community facilities districts and Authority experienced a number of insured and underlying rating changes which were not timely reported. In 2012, the School District undertook a self-evaluation intended to ensure the accuracy of its Official Statements with respect to the School District's, the Authority's and the School District's community facilities districts' financial reporting obligations. The rating changes have been remediated and submitted to the EMMA System.

In December 2014, in response to the U.S. Securities and Exchange Commission's Municipalities Continuing Disclosure Cooperation Initiative, CFD 86-1, CFD 06-1 and CFD 09-1 self-reported information with respect to its prior disclosures.

CFD 86-1, CFD 06-1, CFD 09-1 and the Authority, as well as the School District, have engaged third parties for the purpose of implementing procedures to file their annual reports on a timely basis, and their annual reports have been filed on a timely basis beginning with their annual reports for Fiscal Year 2011-12.

Other than as described in this Official Statement, within the last five years, neither the School District nor the Authority nor the School District's community facilities districts have failed to timely comply with their respective prior continuing disclosure undertakings under the Rule in any material respect.

Legality for Investment in California

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 bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate or certificates to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The School District is not aware of any litigation pending or threatened questioning the existence of Improvement

District No. 1 or the School District or contesting the ability of the County to levy *ad valorem* taxes for payment of the Bonds or contesting the School District's ability to issue the Bonds on behalf of Improvement District No. 1.

The School District is occasionally subject to lawsuits and claims in the ordinary course of its operations. In the opinion of the School District, the aggregate amount of the uninsured liabilities of the School District under these lawsuits and claims will not materially affect the finances of the School District.

Financial Statements

The School District's audited financial statements for Fiscal Year 2014-15, included in this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants (the "Auditor"), as stated in their report in Appendix B. Attention is called to the scope limitation described in the auditor's report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report herein and has not undertaken to update the audited financial statements for fiscal year 2014-15 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 9, 2015. See APPENDIX B—"FISCAL YEAR 2014-15 AUDITED FINANCIAL STATEMENTS OF THE SCHOOL DISTRICT" herein.

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Bond Counsel. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Stradling Yocca Carlson & Rauth will receive compensation contingent upon the sale and delivery of the Bonds.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service ("Moody's") have each assigned its municipal bond rating of "AA" and "Aa1," respectively, to the Bonds. These ratings reflect only the respective views of S&P and Moody's, and an explanation of the significance of such ratings may be obtained from S&P and Moody's. There is no assurance that the ratings will continue for any given time or that the ratings will not be revised downward or withdrawn entirely by S&P and/or Moody's if in their judgment circumstances so warrant. Any such downward revision or withdrawal of the 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 School District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The School District has covenanted in the Continuing Disclosure Certificate for the Bonds to file on the Electronic Municipal Market Access ("EMMA") system, notices of any rating changes on the Bonds. See the caption "LEGAL MATTERS—Continuing Disclosure" below and Appendix E. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from S&P and/or Moody's prior to such information being provided to the School District and prior to the date the School District is obligated to file a notice of rating change on EMMA. Purchasers of the Bonds are directed to S&P and Moody's and their websites and official media outlets for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

UNDERWRITING

The Bonds were sold by competitive bid on October ___, 2016 and awarded by the School District on that day to _________ (the "Purchaser") as the successful bidder, in accordance with the Official Notice of

Sale. The Purchaser has agreed to purchase the Bonds at the initial purchase price of $_________ (which represents the aggregate principal amount of the Bonds, [plus/less] a net original issue [premium/discount] of $_________, less underwriter's discount of $_________. The Official Notice of Sale provides that the Purchaser will purchase all of the Bonds. The obligation to make such purchase is subject to certain terms and conditions set forth in the Official Notice of Sale.

ADDITIONAL INFORMATION

Quotations from and summaries and explanations of the Bonds, the Bond Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from School District records. Appropriate officials of the School District, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the School District's Board of Education.

IRVINE UNIFIED SCHOOL DISTRICT

By:_______________________________________
Superintendent

APPENDIX A

BOUNDARIES OF IMPROVEMENT DISTRICT NO. 1

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Irvine Unified School District
Proposed School Facilities Improvement Measure Boundary

2016 SFIM Schools

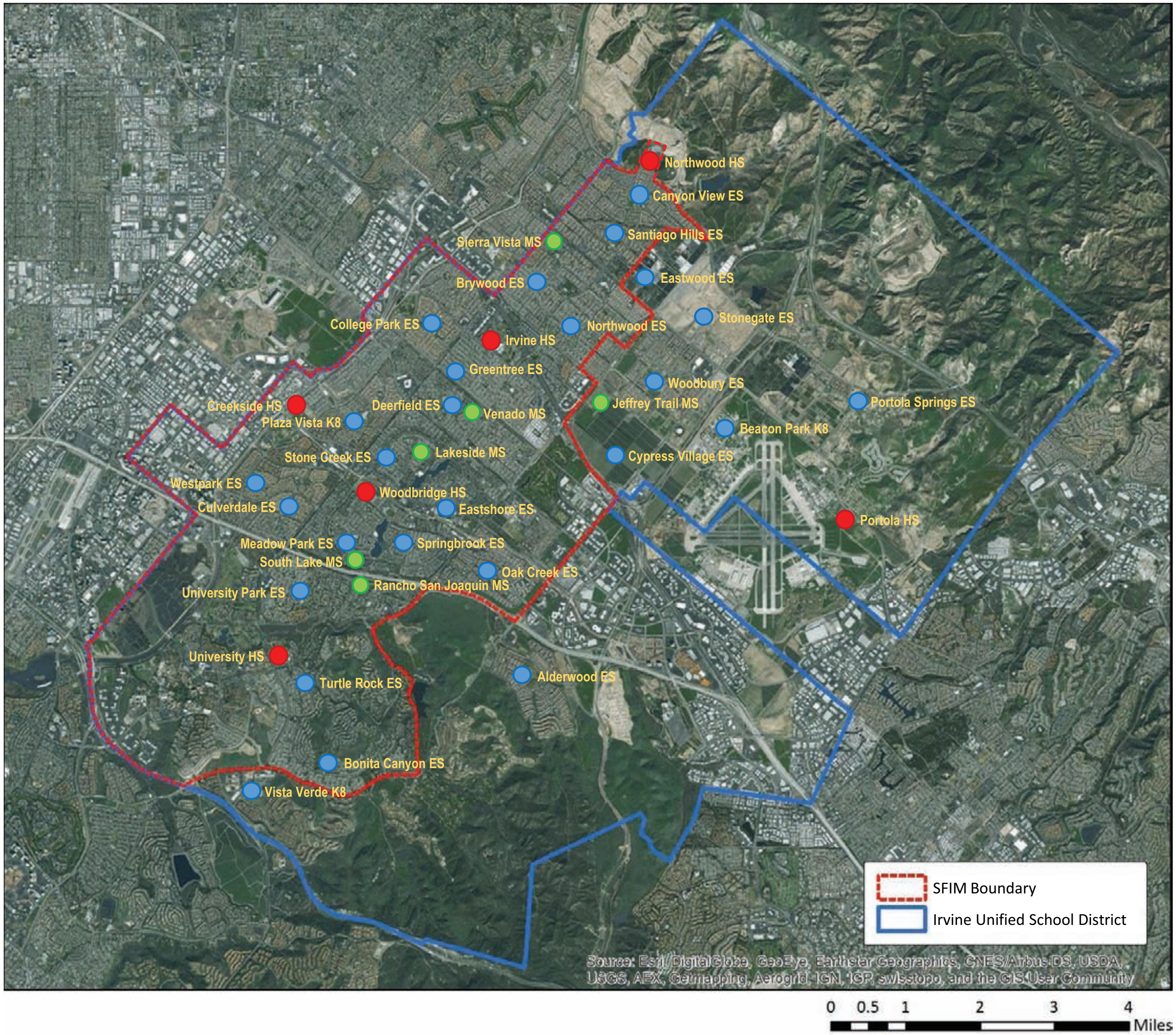
Bonita Canyon ES
Brywood ES
Canyon View ES
College Park ES
Culverdale ES
Deerfield ES
Eastshore ES
Greentree ES
Meadow Park ES
Northwood ES
Oak Creek ES
Santiago Hills ES
Springbrook ES
Stone Creek ES
Turtle Rock ES
University Park ES
Westpark ES
Plaza Vista K8
Lakeside MS
Rancho SJ MS
Sierra Vista MS
South Lake MS
Venado MS
Creekside HS
Irvine HS
Northwood HS
University HS
Woodbridge HS

2016 SFIM Excluded Schools

Alderwood ES
Cypress Village ES
Eastwood ES
Portola Springs ES
Stonegate ES
Woodbury ES
Beacon Park K8
Vista Verde K8
Jeffrey Trail MS
Portola HS

IUSD Schools

Elementary/K8 School
Middle School
High School



Rev. 12.16.15

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APPENDIX B

FISCAL YEAR 2014-15 AUDITED FINANCIAL STATEMENTS
OF THE SCHOOL DISTRICT

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IRVINE UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

IRVINE UNIFIED SCHOOL DISTRICT

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IRVINE UNIFIED SCHOOL DISTRICT

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Irvine Unified School District
Irvine, 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 Irvine Unified School District (the District) as of and for the year ended June 30, 2015, 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 *2014-2015 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 Tel: 909.466.4410 www.vtdcpa.com Fax: 909.466.4431

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 Irvine Unified School District, as of June 30, 2015, 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 Notes 1 and 16 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13 and budgetary comparison, other postemployment benefits (OPEB) funding progress, the District's proportionate share of the net pension liability, and District contributions information on pages 66 through 69, respectively, 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 Irvine 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 (Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations)* and the other supplementary information as listed on 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 9, 2015, on our consideration of the Irvine 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 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 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 Irvine Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2015

Irvine Unified School District
5050 Barranca Parkway, Irvine, California 92604-4652 • 949/936-5000 • FAX 949/936-5259 • www.iusd.org

This section of the Irvine Unified School District's (the District) 2014-2015 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015, with comparative information for June 30, 2014. 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 Irvine Unified School District and its component units using the integrated approach as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including 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 *Governmental Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, 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*. We use internal service 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 TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in the *Fiduciary Fund-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 $965.3 million for the fiscal year ended June 30, 2015. Of this amount, ($207.7) million was unrestricted. Restricted net position are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the Board's ability to use those 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

(Amounts in millions)	Governmental Activities	
	2015	2014*
ASSETS		
Current and other assets	$ 362.5	$ 289.5
Capital assets	889.7	760.9
Total Assets	**1,252.2**	**1,050.4**
Deferred Outflows of Resources	**16.4**	**13.9**
LIABILITIES		
Current liabilities	38.9	34.4
Long-term obligations	20.4	19.9
Aggregate net pension liability	192.5	241.1
Total Liabilities	**251.8**	**295.4**
Deferred Inflows of Resources	**51.5**	**-**
NET POSITION		
Net investment in capital assets	889.0	759.9
Restricted	284.0	208.7
Unrestricted	(207.7)	(199.7)
Total Net Position	**$ 965.3**	**$ 768.9**

*As restated, see Note 16

The $207.7 million in negative unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. All districts throughout California were required to implement GASB Statement No. 68 in the current year to account for their respective share of the pension liability related to CalSTRS and CalPERS. The District was required to retroactively restate the beginning balance to implement the new GASB. The District's net pension liability was $241.1 million and $192.5 million for the years ending June 30, 2014 and June 30, 2015, respectively.

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 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

(Amounts in millions)	Governmental Activities 2015	Governmental Activities 2014
Revenues		
Program revenues:		
Charges for services	$ 7.4	$ 6.8
Operating grants and contributions	48.4	44.6
Capital grants and contributions	0.3	0.8
General revenues:		
Federal and State aid not restricted	27.9	22.8
Property taxes	207.9	172.4
Proceeds from sale of bonds	190.1	33.0
Other general revenues	16.4	37.6
Total Revenues	**498.4**	**318.0**
Expenses		
Instruction-related	219.2	193.9
Pupil services	33.0	29.9
Administration	8.6	8.3
Plant services	31.6	31.0
Other	9.6	7.8
Total Expenses	**302.0**	**270.9**
Change in Net Position	**$ 196.4**	**$ 47.1**

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was $302.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $207.9 million.

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

Table 3

(Amounts in millions)	Net Cost of Services	
	2015	2014
Instruction-related	$ 195.6	$ 165.0
Pupil services	20.5	18.3
Administration	7.4	7.1
Plant services	31.4	30.7
Other	(9.0)	(2.4)
Total	**$ 245.9**	**$ 218.7**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $299.4 million, which is an increase of $62.3 million from last year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 66.)

Budgeted expenditures increased by $23,405,782 due to the appropriation of prior year fund balances, utilization of one-time resources, as well as budgetary increases for gift allocations. These amounts were unknown at the time the budget was adopted and the allocations were made during the fiscal year. In addition, the District successfully negotiated salary increases that were not part of the adopted budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had $889.7 million (gross) in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 4

(Net of accumulated depreciation)

(Amounts in millions)	Governmental Activities	
	2015	2014
Land and construction in process	$ 565.8	$ 451.8
Buildings and improvements	318.6	303.8
Furniture and equipment	5.3	5.3
Total	**$ 889.7**	**$ 760.9**

We present more detailed information regarding our long-term obligations in Note 4 of the financial statements.

Long-Term Obligations

At the end of this year, the District had $20.4 million in long-term obligations outstanding versus $19.9 million last year; an increase of three percent.

Table 5

(Amounts in millions)	Governmental Activities	
	2015	2014
Notes payable	$ 0.7	$ 1.0
Accumulated vacation - net	1.1	1.0
Supplementary Retirement Plan	-	0.7
Net OPEB obligation	18.6	17.2
Total	**$ 20.4**	**$ 19.9**

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2014-2015 ARE NOTED BELOW:

- A 4.8 percent increase on the salary schedule and a 1.5 percent one-time off-schedule increase.
- Special Education contributions remained consistent.
- Completed construction of the interim Training Center at Harvard/Barranca.
- Completed Relo projects at Jeffrey Trail Middle School and Cypress Village Elementary School.
- Continued construction of Irvine High School expansion.
- Continued construction of Portola Springs Elementary School (permanent site).
- Continued plans for the Maintenance and Operations, Modernization and Expansion.
- Began construction of Portola High School.
- Began construction of Beacon Park K-8.
- Began construction of the Central Kitchen and Culinary Arts.
- Began construction of Northwood High School Culinary Arts.
- Purchased land for future construction of PA5B Elementary School.
- Began planning process for PA5B Elementary School.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2015-2016 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Seven percent increase for property tax revenues.
2. Projected ADA growth of 976 students is anticipated.
3. Revenue projections based on Local Control Funding Formula.
4. Local revenues/gift funds remain unbudgeted until received.
5. Budgeted expenditures are aligned with the District's approved Local Control Accountability Plan (LCAP). The District's final approved LCAP is available at: https://iusd.org/LCFF-LCAP/documents/2015_Local_Control_and_Accountability_Plan_Annual_Update_Irvine_Unified_School_District_2015.pdf

Expenditures are based on the following forecasts:

	Staffing Ratio	Enrollment
Kindergarten	31:1	2,587
Grades one through three	30:1	7,451
Grades four through six	31.5:1	7,689
Grades seven through twelve	30:1	14,687

The new items specifically addressed in the budget are:

1. No salary increases are projected for 2015-2016.

2. No increases in health benefit contributions are projected in 2015-2016.

3. Costs associated with the opening of Portola Springs Elementary School (permanent site).

4. Additional designated reserves have been included for contingency reserves ($5.0 million), and additional reserves set aside for future LCAP distribution.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Fiscal Services, at Irvine Unified School District, 5050 Barranca Parkway, Irvine, California, 92604, or e-mail at SusanaLopez@iusd.org.

IRVINE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
ASSETS	
Deposits and investments	$ 349,194,204
Receivables	12,768,193
Prepaid expenses	39,052
Stores inventories	436,909
Other current assets	65,508
Capital assets not depreciated	565,844,674
Capital assets, net of accumulated depreciation	323,816,506
Total Assets	1,252,165,046
DEFERRED OUTFLOWS OF RESOURCES	
Current year pension contribution	16,453,097
LIABILITIES	
Accounts payable	30,918,369
Unearned revenue	941,540
Claims liability	7,068,605
Current portion of long-term obligations other than pensions	351,063
Noncurrent portion of long-term obligations other than pensions	20,056,534
Aggregate net pension liability	192,473,435
Total Liabilities	251,809,546
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan investments	51,498,772
NET POSITION	
Net investment in capital assets	888,961,394
Restricted for:	
Capital projects	250,115,159
Educational programs	8,333,678
Other activities	25,634,128
Unrestricted	(207,734,534)
Total Net Position	$ 965,309,825

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

IRVINE UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

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 Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 183,623,611	$ 101,331	$ 19,674,859	$ 261,357	$ (163,586,064)
Instruction-related activities:					
Supervision of instruction	11,950,849	5,653	3,518,238	-	(8,426,958)
Instructional library, media, and technology	4,895,720	2,341	20,397	-	(4,872,982)
School site administration	18,779,471	3,676	93,881	-	(18,681,914)
Pupil services:					
Home-to-school transportation	4,888,542	95	10,602	-	(4,877,845)
Food services	7,162,848	4,457,482	2,144,963	-	(560,403)
All other pupil services	20,981,247	22,600	5,917,703	-	(15,040,944)
Administration:					
Data processing	2,403,405	-	-	-	(2,403,405)
All other administration	6,152,477	151,324	991,075	-	(5,010,078)
Plant services	31,588,014	23,843	178,994	-	(31,385,177)
Facility acquisition and construction	235,026	-	-	-	(235,026)
Ancillary services	1,541,328	13,386	76,023	-	(1,451,919)
Community services	639,424	-	-	-	(639,424)
Enterprise services	(263,459)	-	-	-	263,459
Interest on long-term obligations	41,211	-	-	-	(41,211)
Other outgo	7,401,083	2,678,207	15,817,727	-	11,094,851
Total Governmental Activities	$ 302,020,797	$ 7,459,938	$ 48,444,462	$ 261,357	(245,855,040)

General revenues and subventions:	
Property taxes, levied for general purposes	184,938,965
Taxes levied for other specific purposes	22,971,426
Federal and State aid not restricted to specific purposes	27,879,921
Interest and investment earnings	259,404
Proceeds from issuance of Community Facilities District Bonds	190,065,617
Miscellaneous	16,164,153
Subtotal, General Revenues	442,279,486
Change in Net Position	196,424,446
Net Position - Beginning, as restated	768,885,379
Net Position - Ending	$ 965,309,825

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

IRVINE UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	General Fund	County School Facilities Fund
ASSETS		
Deposits and investments	$ 48,748,896	$ 107,408,600
Receivables	10,620,305	394,387
Due from other funds	497,380	-
Prepaid expenditures	39,052	-
Stores inventories	378,737	-
Other current assets	65,508	-
Total Assets	$ 60,349,878	$ 107,802,987
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 10,756,858	$ 16,770,273
Due to other funds	2,752,364	97,444
Unearned revenue	511,413	-
Total Liabilities	14,020,635	16,867,717
FUND BALANCES		
Nonspendable	567,789	-
Restricted	8,333,678	90,935,270
Committed	-	-
Assigned	31,924,776	-
Unassigned	5,503,000	-
Total Fund Balances	46,329,243	90,935,270
Total Liabilities and Fund Balances	$ 60,349,878	$ 107,802,987

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

Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
$ 21,775,377	$ 124,257,453	$ 16,566,860	$ 318,757,186
7,275	15,356	1,110,407	12,147,730
1,048,106	-	204,258	1,749,744
-	-	-	39,052
-	-	58,172	436,909
-	-	-	65,508
$ 22,830,758	$ 124,272,809	$ 17,939,697	$ 333,196,129
$ 74,209	$ 1,303,570	$ 673,692	$ 29,578,602
67,340	9,585	322,846	3,249,579
-	-	430,127	941,540
141,549	1,313,155	1,426,665	33,769,721
-	-	58,172	625,961
22,689,209	122,959,654	15,016,210	259,934,021
-	-	1,438,650	1,438,650
-	-	-	31,924,776
-	-	-	5,503,000
22,689,209	122,959,654	16,513,032	299,426,408
$ 22,830,758	$ 124,272,809	$ 17,939,697	$ 333,196,129

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IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total Fund Balance - Governmental Funds		**$ 299,426,408**
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	$ 1,086,428,118	
Accumulated depreciation is	(196,766,938)	
Net Capital Assets		889,661,180
Contributions to pension plans made subsequent to the measurement date were recognized as expenditures on the modified accrual basis, but are not recognized on the accrual basis.		16,453,097
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.		24,148,944
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(51,498,772)
Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(192,473,435)
Long-term obligations at year-end consist of:		
Notes payable	682,350	
Capital lease payable	17,436	
Accumulated vacation	1,109,839	
Net OPEB obligation	18,597,972	
Total Long-Term Obligations		(20,407,597)
Total Net Position - Governmental Activities		**$ 965,309,825**

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

IRVINE UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	County School Facilities Fund
REVENUES		
Local Control Funding Formula	$ 201,964,414	$ -
Federal sources	10,342,822	-
Other State sources	33,097,040	-
Other local sources	23,490,584	587,964
Total Revenues	268,894,860	587,964
EXPENDITURES		
Current		
Instruction	172,877,243	-
Instruction-related activities:		
Supervision of instruction	11,542,340	-
Instructional library, media, and technology	4,848,699	-
School site administration	18,147,690	-
Pupil services:		
Home-to-school transportation	4,896,526	-
Food services	70,378	-
All other pupil services	20,129,586	-
General administration:		
Data processing	2,680,952	-
All other general administration	5,398,730	-
Plant services	27,054,078	36,223
Facility acquisition and construction	307,702	91,247,122
Ancillary services	1,564,423	-
Community services	645,496	-
Other outgo	3,123,096	-
Enterprise services	8,682	-
Debt service		
Principal	335,687	-
Interest and other	41,211	-
Total Expenditures	273,672,519	91,283,345
Excess (Deficiency) of Revenues Over Expenditures	(4,777,659)	(90,695,381)
OTHER FINANCING SOURCES (USES)		
Transfers in	67,243	145,931,313
Other sources	127,073	-
Transfers out	(7,600,957)	-
Other uses	-	-
Net Financing Sources (Uses)	(7,406,641)	145,931,313
NET CHANGE IN FUND BALANCES	(12,184,300)	55,235,932
Fund Balance - Beginning	58,513,543	35,699,338
Fund Balances - Ending	$ 46,329,243	$ 90,935,270

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

Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ 3,500,000	$ 205,464,414
-	-	2,405,860	12,748,682
-	-	625,466	33,722,506
6,936,856	14,674,691	8,825,638	54,515,733
6,936,856	14,674,691	15,356,964	306,451,335
-	-	910,154	173,787,397
-	-	67,401	11,609,741
-	-	-	4,848,699
-	-	259,192	18,406,882
-	-	-	4,896,526
-	-	6,778,882	6,849,260
-	-	62	20,129,648
-	-	-	2,680,952
-	-	250,549	5,649,279
23,499	1,890,192	581,191	29,585,183
1,898,056	46,555,596	3,091,832	143,100,308
-	-	-	1,564,423
-	-	-	645,496
-	3,426,396	-	6,549,492
-	-	-	8,682
-	-	-	335,687
-	-	-	41,211
1,921,555	51,872,184	11,939,263	430,688,866
5,015,301	(37,197,493)	3,417,701	(124,237,531)
4,598,106	-	381,476	150,978,138
-	190,065,617	-	190,192,690
(67,243)	(146,109,938)	-	(153,778,138)
-	(851,591)	-	(851,591)
4,530,863	43,104,088	381,476	186,541,099
9,546,164	5,906,595	3,799,177	62,303,568
13,143,045	117,053,059	12,713,855	237,122,840
$ 22,689,209	$ 122,959,654	$ 16,513,032	$ 299,426,408

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2015

Total Net Change in Fund Balances - Governmental Funds		**$ 62,303,568**
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 exceeds depreciation in the period.		
Capital outlays	$ 142,865,282	
Depreciation expense	(14,148,327)	
Net Expense Adjustment		128,716,955
In the Statement of Activities, certain operating expenses - accumulated 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 amounted to $647,763. Vacation earned was more than the amounts used by $113,822.		533,941
Repayment of notes payable and capital leases are expenditures in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities.		335,687
Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide financial statements as an expense. The actual amount of the contribution was less than the annual required contribution.		(1,385,200)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(314,040)
An internal service fund is used by the District's management to charge the costs of the workers' compensation and health care insurance programs to the individual funds. The net change in assets of the internal service fund is reported with governmental activities.		6,233,535
Change in Net Position of Governmental Activities		**$ 196,424,446**

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	$ 30,437,018
Receivables	620,463
Due from other funds	1,500,000
Total Current Assets	32,557,481
LIABILITIES	
Current Liabilities	
Accounts payable	1,339,767
Due to other funds	165
Claims liability	7,068,605
Total Current Liabilities	8,408,537
NET POSITION	
Restricted	$ 24,148,944

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	$ 31,398,104
OPERATING EXPENSES	
Payroll costs	334,231
Professional and contract services	27,722,156
Supplies and materials	7,963
Total Operating Expenses	28,064,350
Operating Income	3,333,754
NONOPERATING REVENUES	
Interest income	99,781
Income Before Transfers	3,433,535
Transfers in	2,800,000
Change in Net Position	6,233,535
Total Net Position - Beginning	17,915,409
Total Net Position - Ending	$ 24,148,944

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

IRVINE UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$ 31,323,477
Cash payments to employers for services	(334,231)
Cash payments for insurance claims	(6,051,509)
Cash payments to other suppliers for goods and services	(3,199)
Other operating cash payments	(23,391,929)
Net Cash Provided By Operating Activities	1,542,609
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	2,800,000
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	99,781
Net change in cash and cash equivalents	4,442,390
Cash and cash equivalents - Beginning	25,994,628
Cash and cash equivalents - Ending	$ 30,437,018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating income	$ 3,333,754
Changes in assets and liabilities:	
Receivables	(74,627)
Accounts payable	516,122
Due from other fund	(1,500,000)
Due to other fund	131
Claims liability	(732,771)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,542,609

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

IRVINE UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Agency Funds
ASSETS	
Deposits and investments	$ 56,597,180
Receivables	863,763
Total Assets	$ 57,460,943
LIABILITIES	
Due to student groups	$ 1,842,956
Due to bondholders	55,617,987
Total Liabilities	$ 57,460,943

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Irvine Unified School District (the District) was unified on July 1, 1973, 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 twenty-two elementary schools, two K-8 schools, six middle schools, four high schools, one continuation school, one independent study school, and one adult education center.

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 Irvine 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 units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The basic financial statements include blended component units. The blended component units, although legally separate entities are, in substance, part of the District's operations and so data from these units are combined with data of the primary government for purposes of reporting in the accompanying basic financial statements.

The Irvine Unified School District and the Irvine Unified School District Financing Authority (the Authority) have financial and operational relationships which meet the reporting entity definition criteria of the GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Authority as a component unit of the District.

The Authority's financial activity is presented in the financial statements in the CFD Capital Project Funds and in the agency fund.

Blended Component Units

Pursuant to the Mello-Roos Community Facilities Act of 1982, the District established the Community Facilities Districts Nos. 86-1, 01-1, 04-1, 04-2A, 04-2B, 06-1, 08-1, and 09-1 legally constituted governmental entities, for the purpose of financing special capital projects. The Community Facilities Districts (CFDs) were authorized, at special elections, to incur indebtedness and subsequently sold bonds for the purpose of providing educational facilities within the District boundaries. The repayment of the bonds is not a general or special obligation of the CFDs, but rather are limited obligations payable solely from the proceeds of special taxes levied on property within the Community Facilities Districts.

The following are those aspects of the relationship between the District and the Community Facilities Districts which satisfy Statement Three criteria.

Manifestations of Oversight

The CFDs and the District have common boards.

The CFDs have no employees. The District's Superintendent functions as an agent of the CFDs.

The District exercises significant influence over operations of the CFDs as all projects of the CFDs involve the Irvine Unified School District.

Accountability of Fiscal Matters

The District is responsible for preparation of the annual budgets for the CFDs.

Scope of Public Service

The CFDs were created specifically to finance capital improvements for the District.

Financial Presentation

For financial presentation purposes, the CFDs' financial activity has been blended, or combined with the financial data of the District. The financial statements present the CFDs' financial activity within the Combined Community Facilities District Capital Projects Funds and in an Agency Fund for the repayment of the Non-Obligatory Debt.

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.

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), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

Community Facilities District (CFD) Capital Projects Fund The CFD Capital Projects Fund accumulates proceeds from Bond issuance to be used for acquisition, construction, or improvement of major capital facilities.

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 expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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 State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). 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).

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund Internal Service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a self-insurance program 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. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds include:

- Debt Service Special Tax Bonds – this is an Agency fund used to account for the resources accumulated for the repayment of special assessment debt of the component unit described under financial reporting entity.
- Student Funds – are Agency funds used to account for student fund activities.

Basis of Accounting - Measurement Focus

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

The government-wide financial statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the District and for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program 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 special revenue funds, 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 a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, 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 a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund. The internal activity of this fund is eliminated in the government-wide Statement of Activities.

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 LEAs and so as not to distort normal revenue patterns with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: Sate apportionment, interest, certain grants, and other local sources.

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

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined 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, 2015, 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

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out 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. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $20,000. 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. The valuation basis for capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 5 to 25 years; equipment, 5 to 10 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 column of the Statement of Net Position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide *Statement of Net Position*. 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 fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

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 current year pension contributions.

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 the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

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.

Fund Balances - Governmental Funds

As of June 30, 2015, 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, Assistant Superintendent of Business Services (CFO), or the Director of Fiscal Services may assign amounts for specific purposes. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District 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 $284,082,965 of restricted net position.

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 are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating 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 on the financial statements.

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.

Budgetary Data

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

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

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 2012, the GASB issued Statement No. 68*, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions 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 Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by $227,205,070. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as this information was not available.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* 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 scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	$ 349,194,204
Fiduciary funds	56,597,180
Total Deposits and Investments	$ 405,791,384

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	$ 3,260,583
Cash in revolving	150,000
Investments	402,380,801
Total Deposits and Investments	$ 405,791,384

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.

The Treasury Oversight Committee established in December 1995, which consists of the elected County Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, one special district representative member, and one member from the public sector appointed by the Board, conducts Treasury oversight of the Orange County Educational Investment Pool. The Orange County Educational Investment Pool is not registered with the SEC.

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

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by primarily investing in the Orange County Educational Investment pool and money market funds.

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	Fair Value	Weighted Average Days to Maturity
Money Market Funds - Federated Treasury Obligation Funds	$ 128,589,074	39
Orange County Educational Investment Pool	273,960,260	370
Total	$ 402,549,334	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Investment Pool is rated by Moody's Investor Services. 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 Money Market Funds - Federated Treasury Obligation Funds was rated by Standard and Poor's.

Investment Type	Minimum Legal Rating	Rating June 30, 2015	Fair Value
Money Market Funds - Federated Treasury Obligation Funds	Not Required	AAAm	$ 128,589,074
Orange County Educational Investment Pool	Not Required	AAAm	273,960,260
Total			$ 402,549,334

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, 2015, the District's bank balance of $3,041,453 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Agency Fund
Federal Government								
Categorical aid	$ 5,133,915	$ -	$ -	$ -	$ 195,086	$ -	$ 5,329,001	$ -
State Government								
Categorical aid	623,070	-	-	-	11,339	-	634,409	-
Lottery	2,704,211	-	-	-	-	-	2,704,211	-
Other State	177,729	-	-	-	64,569	-	242,298	-
Local Government								
Interest	33,458	38,177	7,275	1,040	1,749	-	81,699	-
Developer fees	-	-	-	-	837,664	-	837,664	-
ROP	706,343	-	-	-	-	-	706,343	-
Other local	1,241,579	356,210	-	14,316	-	620,463	2,232,568	863,763
Total	$ 10,620,305	$ 394,387	$ 7,275	$ 15,356	$ 1,110,407	$ 620,463	$ 12,768,193	$ 863,763

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 318,612,699	$ 40,068,702	$ -	$ 358,681,401
Construction in progress	133,224,655	99,701,108	25,762,490	207,163,273
Total Capital Assets Not Being Depreciated	451,837,354	139,769,810	25,762,490	565,844,674
Capital Assets Being Depreciated				
Land improvements	21,056,880	8,748,159	-	29,805,039
Buildings and improvements	458,780,431	19,192,784	-	477,973,215
Equipment	11,888,171	917,019	-	12,805,190
Total Capital Assets Being Depreciated	491,725,482	28,857,962	-	520,583,444
Less Accumulated Depreciation				
Land improvements	34,859,066	3,554,093	-	38,413,159
Buildings and improvements	141,196,363	9,610,790	-	150,807,153
Equipment	6,563,182	983,444	-	7,546,626
Total Accumulated Depreciation	182,618,611	14,148,327	-	196,766,938
Governmental Activities Capital Assets, Net	$ 760,944,225	$ 154,479,445	$ 25,762,490	$ 889,661,180

Depreciation expense was charged to governmental functions as follows:

Instruction	$ 11,474,293
General administration	406,057
Plant services	1,931,247
Food services	336,730
Total Depreciation Expenses Governmental Activities	$ 14,148,327

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2015, between major and non-major governmental funds, and internal service fund are as follows:

	Due From						
Due To	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
General Fund	$ -	$ 97,444	$ 67,340	$ 9,585	$ 322,846	$ 165	$ 497,380
Special Reserve Fund for Capital Outlay Projects	1,048,106	-	-	-	-	-	1,048,106
Non-Major Governmental Funds	204,258	-	-	-	-	-	204,258
Internal Service Fund	1,500,000	-	-	-	-	-	1,500,000
Total	$ 2,752,364	$ 97,444	$ 67,340	$ 9,585	$ 322,846	$ 165	$ 3,249,744

A balance of $1,048,106 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund as a reimbursement of capital expenditures and for redevelopment funds.

The balance of $199,019 is due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund for operating expenditures.

The balance of $1,500,000 is due to the Internal Service Fund from the General Fund for insurance reserve expenditures.

The balance of $97,444 is due to the General Fund from the County School Facilities Fund for reimbursement of salary costs.

The balance of $67,340 is due to the General Fund from the Special Reserve Fund for Capital Outlay Projects for operating expenditures.

A balance of $19,761 is due to the General Fund from the Deferred Maintenance Non-Major Governmental Fund for fitness equipment.

A balance of $26,223 is due to the General Fund from the Child Development Non-Major Governmental Fund as a reimbursement of program and retiree costs.

A balance of $263,425 is due to the General Fund from the Cafeteria Non-Major Governmental Fund as a reimbursement of payroll, retiree contributions, and fuel charge.

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

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

	Transfer From			
Transfer To	General Fund	Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Total
General Fund	$ -	$ 67,243	$ -	$ 67,243
County School Facilities Fund	-	-	145,931,313	145,931,313
Special Reserve Fund for Capital Outlay Projects	4,598,106	-	-	4,598,106
Non-Major Governmental Funds	202,851	-	178,625	381,476
Internal Service Fund	2,800,000	-	-	2,800,000
Total	$ 7,600,957	$ 67,243	$ 146,109,938	$ 153,778,138

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for capital expenditures.	$ 4,598,106
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for facility usage.	199,018
The General Fund transferred to the Internal Service Fund for property and liability premiums.	2,800,000
The General Fund transferred to the Adult Education Non-Major Governmental Fund for reimbursements of costs	2,212
The General Fund transferred to the Child Development Non-Major Governmental Fund for reimbursements of costs	1,621
The Special Reserve Fund for Capital Outlay Projects transferred to the General Fund for operating expenditures.	67,243
The CFD Capital Projects Fund transferred to the County School Facilities Fund for capital expenditures reimbursement.	145,931,313
The CFD Capital Projects Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for deferred maintenance reimbursement.	178,625
Total	$ 153,778,138

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	CFD Capital Projects Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
LCFF	$ 1,263,094	$ -	$ -	$ -	$ -	$ -	$ 1,263,094
Salaries and benefits	6,764,385	-	-	-	365,946	25,243	7,155,574
Construction	-	16,770,273	74,209	1,303,570	-	-	18,148,052
Other	2,729,379	-	-	-	307,746	1,314,524	4,351,649
Total	$ 10,756,858	$ 16,770,273	$ 74,209	$ 1,303,570	$ 673,692	$ 1,339,767	$ 30,918,369

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 29,248	$ -	$ 29,248
State categorical aid	-	62,933	62,933
Other local	482,165	367,194	849,359
Total	$ 511,413	$ 430,127	$ 941,540

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2014	Additions	Deductions/ Adjustments	Balance June 30, 2015	Due in One Year
Notes payable	$ 1,001,534	$ -	$ 319,184	$ 682,350	$ 333,627
Capital lease	33,939	-	16,503	17,436	17,436
Accumulated vacation - net	996,017	113,822	-	1,109,839	-
Supplementary retirement plan	647,763	-	647,763	-	-
Net OPEB obligation	17,212,772	5,253,500	3,868,300	18,597,972	-
	$ 19,892,025	$ 5,367,322	$ 4,851,750	$ 20,407,597	$ 351,063

Payments for the notes payable, capital lease, supplementary retirement plan and OPEB obligation are made by the General Fund. Payments for accumulated vacation will be paid by the fund for which the employee worked.

Notes Payable

The notes payable were issued in September 2005 in the amount of $3,319,026 to fund energy-retrofitting projects throughout the District.

The annual debt service requirements to amortize the notes payable outstanding as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2016	$ 333,627	$ 24,848	$ 358,475
2017	348,723	9,752	358,475
Total	$ 682,350	$ 34,600	$ 716,950

Capital Lease

The District has entered into an agreement to lease equipment. This agreement is, in substance, a purchase (capital leases) and is reported as a capital lease obligation. The District's liability on this lease agreement with the option to purchase is summarized below:

Year Ending June 30,	Principal	Interest to Maturity	Total
2016	$ 17,436	$ 987	$ 18,423

Accumulated Vacation

The long-term portion of accumulated vacation for the District at June 30, 2015, amounted to $1,109,839. District policy requires that accumulated vacation be utilized within a calendar year-end or six months following, unless specifically approved.

Other Early Retirement Incentives

The District adopted a one-time supplementary retirement plan (SRP) for certificated, non-management employees who were employed by the District as of September 15, 2009; were at least 55 years of age with five or more years of District service; and resigned from District employment on or before January 31, 2010. In exchange for early retirement, the District will contribute 95 percent of the 2009-2010 contract salary. The District had 75 employees that enrolled in the SRP which created an obligation of $6,477,627. The District made the final payment of $647,763 in the current fiscal year, as of June 30, 2015, the District had satisfied all obligations related to the SRP.

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Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was $5,502,300, and contributions made by the District during the year were $3,868,300. Interest on the net OPEB obligation and adjustments to the annual required contribution were $860,600 and $(1,109,400), respectively, which resulted in an increase to the net OPEB obligation of $1,385,200. As of June 30, 2015, the net OPEB obligation was $18,597,972. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 9 - NON-OBLIGATORY DEBT

Bonded Debt - Community Facilities District (CFD) Special Tax Bonds

The bonds issued by the Community Facilities Districts (hereinafter referred to as the CFDs) are not obligations of the Irvine Unified School District. The bonds, the interest thereon, and any premiums on the redemption of any of the bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFDs, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the bonds. The bonds are payable from the proceeds of an annual special tax levied on and collected from property within the CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Governing Board of Irvine Unified School District. The bonds are secured only by a first pledge of all revenues derived from the net special taxes and the monies deposited in certain funds held by the fiscal agent under the fiscal agent agreement. At June 30, 2015, the CFDs Bonds outstanding amounted to $596,666,361.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects
Nonspendable			
Revolving cash	$ 150,000	$ -	$ -
Stores inventories	378,737	-	-
Prepaid expenditures	39,052	-	-
Total Nonspendable	567,789	-	-
Restricted			
Legally restricted programs	8,333,678	-	-
Child development program	-	-	-
Cafeteria program	-	-	-
Capital projects	-	90,935,270	22,689,209
Total Restricted	8,333,678	90,935,270	22,689,209
Committed			
Deferred maintenance program	-	-	-
Assigned			
School site carryover	4,700,419	-	-
Other board assigned	27,224,357	-	-
Total Assigned	31,924,776	-	-
Unassigned			
Reserve for economic uncertainties	5,503,000	-	-
Total	$ 46,329,243	$ 90,935,270	$ 22,689,209

CFD Capital Projects Fund	Non-Major Governmental Funds	Total
$ -	$ -	$ 150,000
-	58,172	436,909
-	-	39,052
-	58,172	625,961
-	-	8,333,678
-	35,129	35,129
-	1,450,055	1,450,055
122,959,654	13,531,026	250,115,159
122,959,654	15,016,210	259,934,021
-	1,438,650	1,438,650
-	-	4,700,419
-	-	27,224,357
-	-	31,924,776
-	-	5,503,000
$ 122,959,654	$ 16,513,032	$ 299,426,408

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Irvine Unified School District. The Plan provides vision, medical, and dental insurance benefits to eligible retirees and their spouses. Participants to the Plan include 172 retirees and beneficiaries currently receiving benefits and 2,189 active employees eligible for these benefits in a future period.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA), and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2014-2015, the District contributed $3,868,300 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 5,502,300
Interest on net OPEB obligation	860,600
Adjustment to annual required contribution	(1,109,400)
Annual OPEB cost (expense)	5,253,500
Contribution made	(3,868,300)
Increase in net OPEB obligation	1,385,200
Net OPEB obligation, beginning of year	17,212,772
Net OPEB obligation, end of year	$ 18,597,972

Trend information for the annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	$ 4,667,300	$ 2,240,964	48%	$ 14,425,217
2014	4,968,301	2,180,746	44%	17,212,772
2015	5,253,500	3,868,300	74%	18,597,972

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age Normal (b)	AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2015	$ -	$ 45,449,200	$ 45,449,200	0%	$ 192,542,100	24%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

On the June 30, 2015, actuarial valuation, the entry age-normal method was used. The actuarial assumptions included a 2.50 percent investment rate of return (net of administrative expenses), based on the assumed combined equity return or plan assets or employer assets. The healthcare cost trend rate used for PPO and HMO programs was 6.25 and 7.00 percent, respectively. The cost trend rate used for the Dental and Vision programs was four and two percent, respectively. The UAAL is being amortized at a level dollar method. The actuarial value of assets was not determined in this actuarial valuation. The District has not established a plan or equivalent arrangement that contains an irrevocable transfer of assets dedicated to providing benefits to retirees. The remaining amortization period at June 30, 2015, was 23 years.

NOTE 12 - RISK MANAGEMENT - CLAIMS

Description

The District's risk management activities for health care, property, liability, and workers' compensation exposures are recorded in the Internal Service Funds. Significant losses are covered by commercial insurance for all programs. The District is self-insured in medical and dental claims, and purchases commercial insurance for specific loss ($100,000), and aggregate loss (125 percent of anticipated claims). The property and liability program for which the District has a self-insured retention level of $25,000 has a primary level of commercial insurance of $25,000 - $1,000,000, and excess property liability coverage is obtained through a property and liability JPA, Southern California Regional Liability Excess Fund (SCR). Refer to Note 15 for additional information regarding the JPAs.

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

The following is a summary of the insurance policies carried by the District as of June 30, 2015:

Insurance Program Company Name	Type of Coverage	Limits
Workers' Compensation Program	Workers' Compensation	Self-insured to $350,000
Excess Workers' Compensation	ACE Limited	$350,000 - $1,000,000
		$1,000,000 - Unlimited
Property and Liability Program	Commercial Insurance	$25,000 - $1,000,000
Primary Coverage	Gulf/Traveler's	
Excess Property and Liability Program	Liability	$1,000,000 - $25,000,000
SCR	Property	$1,000,000 - $100,000,000

Claims Liabilities

The District records an estimated liability for healthcare, workers' compensation and indemnity torts 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, 2013 to June 30, 2015:

	Health Care	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2013	$ 1,394,000	$ 7,406,283	$ 75,000	$ 8,875,283
Claims and changes in estimates	18,441,741	32,228	-	18,473,969
Claims payments	(18,155,041)	(1,392,835)	-	(19,547,876)
Liability Balance, June 30, 2014	1,680,700	6,045,676	75,000	7,801,376
Claims and changes in estimates	25,270,274	430,211	-	25,700,485
Claims payments	(25,412,574)	(1,020,682)	-	(26,433,256)
Liability Balance, June 30, 2015	$ 1,538,400	$ 5,455,205	$ 75,000	$ 7,068,605
Assets available to pay claims at June 30, 2015				$ 32,557,481

The District administers the Workers' Compensation Program through the purchase of commercial insurance for occurrences in excess of $500,000.

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).

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense
CalSTRS	$ 150,336,786	$ 11,391,398	$ 37,020,147	$ 12,978,919
CalPERS	42,136,649	5,061,699	14,478,625	3,745,087
Total	$ 192,473,435	$ 16,453,097	$ 51,498,772	$ 16,724,006

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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, 2015, 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	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

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, 2015, are presented above and the District's total contributions were $11,391,398.

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:		
District's proportionate share of net pension liability	$	150,336,786
State's proportionate share of the net pension liability associated with the District		90,779,842
Total	$	241,116,628

The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was .2573 percent.

For the year ended June 30, 2015, the District recognized pension expense of $12,978,919. In addition, the District recognized revenue and pension expense of $7,837,232 for support provided by the State. At June 30, 2015, 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	$ 11,391,398	$ -
Difference between projected and actual earnings on pension plan investments	-	37,020,147
Total	$ 11,391,398	$ 37,020,147

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 year ended June 30, 2016.

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

Year Ended June 30,	Amortization
2016	$ 9,255,037
2017	9,255,037
2018	9,255,037
2019	9,255,036
Total	$ 37,020,147

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, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined be assuming the portfolio is re-balanced annually and that the annual returns are normally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	$ 234,335,732
Current discount rate (7.60%)	150,336,786
1% increase (8.60%)	80,296,931

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, 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 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	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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, 2015, are presented above and the total District contributions were $5,061,699.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $42,136,649. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was .3712 percent.

For the year ended June 30, 2015, the District recognized pension expense of $3,745,087. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 5,061,699	$ -
Difference between projected and actual earnings on pension plan investments	-	14,478,625
Total	$ 5,061,699	$ 14,478,625

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year Ended June 30,	Amortization
2016	$ 3,619,656
2017	3,619,656
2018	3,619,656
2019	3,619,657
Total	$ 14,478,625

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, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

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 (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. 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%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.50%)	$ 73,917,299
Current discount rate (7.50%)	42,136,649
1% increase (8.50%)	15,580,710

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.75 percent of an employee's gross earnings. An employee is required to contribute 6.75 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $6,135,795 (5.679 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Beacon Park K-8	$ 21,083,722	June 2017
Central Kitchen	6,773,507	September 2015
Cypress Village (PA40 ES)	26,654	July 2015
Cypress Village Relos	416,264	June 2016
Eastshore Site Improvement	17,842	June 2016
Greentree Shade Structure & Relo	4,950	July 2015
Interim Training Center	32,011	June 2016
Irvine HS Exp	3,986,720	July 2015
IT Infrastructure	1,064,877	June 2017
Jeffrey Trail MS Relos (2015)	502,796	June 2016
M and O Mod	347,948	June 2017
Northwood HS Culinary Arts	520,508	July 2015
Northwood HS Exp	643,777	July 2015
PA5B ES	774,766	June 2018
Portola HS	83,583,440	June 2018
Portola HS Pool	83,331	June 2018
Portola HS Stadium	97,140	June 2018
Portola Springs	4,607,617	September 2016
Springbrook Shade Structure	4,963	July 2015
	$ 124,572,833	

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

The District is a member of the Irvine Child Care Project (ICCP), the Coastline Regional Occupation Program (CROP), and the Southern California Regional Liability Excess Fund (SCR). The relationships between the District, the pools, and the JPAs 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, 2015, the District made payments of $1,124,950 and $966,124 to CROP and SCR, respectively.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position	
Net Position - Beginning	$ 996,090,449
Restatement of net pension liability for implementation of GASB Statement No. 68	(241,116,582)
Restatement of deferred outflows of resources for implementation of GASB Statement No. 68	13,911,512
Net Position - Beginning as Restated	$ 768,885,379

REQUIRED SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	$ 200,817,576	$ 201,964,414	$ 201,964,414	$ -
Federal sources	9,267,177	11,674,865	10,342,822	(1,332,043)
Other State sources	23,189,053	27,057,598	33,097,040	6,039,442
Other local sources	13,602,011	23,494,919	23,490,584	(4,335)
Total Revenues[1]	246,875,817	264,191,796	268,894,860	4,703,064
EXPENDITURES				
Current				
Certificated salaries	131,046,225	133,357,622	133,048,835	308,787
Classified salaries	42,515,035	46,093,156	45,716,291	376,865
Employee benefits	47,076,526	49,914,057	56,085,792	(6,171,735)
Books and supplies	12,256,684	25,746,877	13,714,197	12,032,680
Services and operating expenditures	19,557,907	21,977,210	21,289,071	688,139
Other outgo	3,120,401	2,899,244	2,872,547	26,697
Capital outlay	1,861,630	833,602	568,888	264,714
Debt service - principal	319,185	335,687	335,687	-
Debt service - interest	39,291	41,211	41,211	-
Total Expenditures[1]	257,792,884	281,198,666	273,672,519	7,526,147
Excess (Deficiency) of Revenues Over Expenditures	(10,917,067)	(17,006,870)	(4,777,659)	12,229,211
OTHER FINANCING SOURCES (USES)				
Transfers in	40,425	67,243	67,243	-
Other sources	127,073	127,073	127,073	-
Transfers out	(5,183,420)	(7,600,957)	(7,600,957)	-
Net Financing Sources (Uses)	(5,015,922)	(7,406,641)	(7,406,641)	-
NET CHANGE IN FUND BALANCE	(15,932,989)	(24,413,511)	(12,184,300)	12,229,211
Fund Balance - Beginning	58,513,543	58,513,543	58,513,543	-
Fund Balance - Ending	$ 42,580,554	$ 34,100,032	$ 46,329,243	$ 12,229,211

[1] On behalf payments of $6,135,795 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2011	$ -	$ 47,636,500	$ 47,636,500	0%	$ 144,828,800	33%
July 1, 2013	-	50,944,500	50,944,500	0%	166,022,600	31%
June 30, 2015	-	45,449,200	45,449,200	0%	192,542,100	24%

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

	2015
CalSTRS	
District's proportion of the net pension liability	0.2573%
District's proportionate share of the net pension liability	$ 150,336,786
State's proportionate share of the net pension liability associated with the District	90,779,842
Total	$ 241,116,628
District's covered - employee payroll	$ 117,564,372
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	127.88%
Plan fiduciary net position as a percentage of the total pension liability	77%
CalPERS	
District's proportion of the net pension liability	0.3712%
District's proportionate share of the net pension liability	$ 42,136,649
District's covered - employee payroll	$ 44,404,774
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	94.89%
Plan fiduciary net position as a percentage of the total pension liability	83%

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

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015

	2015
CalSTRS	
Contractually required contribution	$ 11,391,398
Contributions in relation to the contractually required contribution	(11,391,398)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 128,281,509
Contributions as a percentage of covered - employee payroll	8.88%
CalPERS	
Contractually required contribution	$ 5,061,699
Contributions in relation to the contractually required contribution	(5,061,699)
Contribution deficiency (excess)	$ -
District's covered - employee payroll	$ 43,001,436
Contributions as a percentage of covered - employee payroll	11.77%

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

SUPPLEMENTARY INFORMATION

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	$ 2,078,956
Title I, Part G, Advance Placement Program	84.330B	14831	6,734
Title II, Part A, Improving Teacher Quality	84.367	14341	498,378
Title III, Immigrant Education Program	84.365	14346	112,418
Title III, Limited English Proficient (LEP) Student Program	84.365	10084	398,348
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B	84.027	13379	4,193,544
Preschool Grants, Part B	84.173	13430	114,685
Preschool Local Entitlement, Part B	84.027A	13682	344,857
Local Assistance, Part B, Sec 611, Private Schools ISPs	84.027	10115	9,328
Quality Assurance and Focused Monitoring, Part B	84.027A	13693	236,670
Preschool Staff Development, Part B	84.173A	13431	1,185
Mental Health Allocation Plan, Part B	84.027	14468	409,875
Total Special Education (IDEA) Cluster			5,310,144
IDEA Early Intervention Grants	84.181	23761	28,621
Passed through the California Department of Rehabilitation:			
Workability II, Transition Partnership	84.126	10006	448,015
Carl D. Perkins Career and Technical Education: Secondary	84.048	13924	135,170
Promoting Readiness of Minors in Supplemental Security Income (PROMISE)	84.418P	29123	375,750
Total U.S. Department of Education			9,392,534
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	1,597,816
Basic Breakfast	10.553	13390	135,797
Especially Needy Breakfast	10.553	13526	313,426
Commodities	10.555	[1]	261,397
Total Child Nutrition Cluster			2,308,436
Child Care Food Program	10.558	13393	41,605
Total U.S. Department of Agriculture			2,350,041

[1] Pass-Through Identifying Number not available.

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the CDE:			
Medi-Cal Billing Option	93.778	10013	$ 239,615
Child Development: Federal General Child Care, Center Based	93.596	13609	83,671
Total U.S. Department of Health and Human Services			323,286
U.S. DEPARTMENT OF LABOR			
Passed through the County of Orange:			
Workforce Investment Act (WIA) From Other Agencies	17.259	10055	578,229
Total U.S. Department of Labor			578,229
Total Expenditures of Federal Awards			$ 12,644,090

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

The Irvine Unified School District was unified on July 1, 1973, 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 twenty-two elementary schools, two K-8 schools, six middle schools, four high schools, one continuation school, one independent study school, and one adult education center. The District is comprised of an area of approximately 62 square miles, located in Orange County. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Lauren Brooks	President	2016
Paul Bokota	Clerk	2016
Ira Glasky	Member	2018
Michael Parham	Member	2016
Sharon Wallin	Member	2018

ADMINISTRATION

Terry Walker	District Superintendent
John Fogarty	Assistant Superintendent/Business Services
Brianne Ford	Chief Technology Officer
Eamonn O'Donnovan	Assistant Superintendent, Human Resources
Cassie Parham	Assistant Superintendent, Education Services

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	9,443.05	9,471.27
Fourth through sixth	7,276.82	7,295.24
Seventh and eighth	4,753.74	4,763.73
Ninth through twelfth	9,078.12	9,038.95
Total Regular ADA	30,551.73	30,569.19
Extended Year Special Education		
Transitional kindergarten through third	5.04	5.04
Fourth through sixth	5.05	5.05
Seventh and eighth	2.49	2.49
Ninth through twelfth	7.41	7.41
Total Extended Year Special Education	19.99	19.99
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	9.70	9.93
Ninth through twelfth	20.43	21.90
Total Special Education, Nonpublic, Nonsectarian Schools	30.13	31.83
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.10	0.10
Fourth through sixth	1.40	1.40
Ninth through twelfth	2.16	2.16
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	3.66	3.66
Total ADA	30,605.51	30,624.67

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2014-15 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	35,000	36,000	180	180	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			50,700	180	180	Complied
Grade 2			50,700	180	180	Complied
Grade 3			50,700	180	180	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			56,079	180	180	Complied
Grade 5			56,079	180	180	Complied
Grade 6			56,079	180	180	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			56,430	180	180	Complied
Grade 8			56,430	180	180	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			65,950	180	N/A	Complied
Grade 10			65,950	180	N/A	Complied
Grade 11			65,950	180	N/A	Complied
Grade 12			65,950	180	N/A	Complied

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2015.

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IRVINE UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

	(Budget) 2016 [1]	2015	2014	2013
GENERAL FUND				
Revenues	$ 307,392,508	$ 262,759,065	$ 249,631,671	$ 236,715,063
Other sources and transfers in	167,073	194,316	1,589,355	1,631,465
Total Revenues and Other Sources	307,559,581	262,953,381	251,221,026	238,346,528
Expenditures	279,746,687	267,536,724	244,243,844	227,254,086
Other uses and transfers out	2,850,586	7,600,957	2,643,176	1,948,420
Total Expenditures and Other Uses	282,597,273	275,137,681	246,887,020	229,202,506
INCREASE (DECREASE) IN FUND BALANCE	$ 24,962,308	$ (12,184,300)	$ 4,334,006	$ 9,144,022
ENDING FUND BALANCE	$ 71,291,551	$ 46,329,243	$ 58,513,543	$ 54,179,537
AVAILABLE RESERVES [2]	$ 5,652,000	$ 5,503,000	$ 7,600,000	$ 7,000,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO [3]	2.00%	2.05%	3.15%	3.13%
LONG-TERM OBLIGATIONS	N/A	$ 20,407,597	$ 19,892,025	$ 18,688,580
K-12 AVERAGE DAILY ATTENDANCE AT P-2	31,577	30,606	29,443	28,312

The General Fund balance has decreased by $7,850,294 over the past two years. The fiscal year 2015-2016 budget projects an increase of $24,962,308 (54 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 two of the past three years and anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by $1,719,017 over the past two years.

Average daily attendance has increased by 2,294 over the past two years. Additional growth of 971 ADA is anticipated during fiscal year 2015-2016.

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1 Budget 2016 is included for analytical purposes only and has not been subjected to audit.
2 Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.
3 On-behalf payments of $6,135,795, $5,899,766, and $5,308,639, have been excluded from this schedule for fiscal years ending June 30, 2015, 2014, and 2013, respectively.

See accompanying note to supplementary information.

IRVINE UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	$ 24,638	$ 76,175	$ 2,285,792
Receivables	1,683	107,583	162,883
Due from other funds	2,212	1,621	1,406
Stores inventories	-	-	58,172
Total Assets	$ 28,533	$ 185,379	$ 2,508,253
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 18,558	$ 59,447	$ 369,407
Due to other funds	9,975	27,870	263,425
Unearned revenue	-	62,933	367,194
Total Liabilities	28,533	150,250	1,000,026
FUND BALANCES			
Nonspendable	-	-	58,172
Restricted	-	35,129	1,450,055
Committed	-	-	-
Total Fund Balances	-	35,129	1,508,227
Total Liabilities and Fund Balances	$ 28,533	$ 185,379	$ 2,508,253

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
$ 1,442,272	$ 12,737,983	$ 16,566,860
594	837,664	1,110,407
199,019	-	204,258
-	-	58,172
$ 1,641,885	$ 13,575,647	$ 17,939,697
$ 183,474	$ 42,806	$ 673,692
19,761	1,815	322,846
-	-	430,127
203,235	44,621	1,426,665
-	-	58,172
-	13,531,026	15,016,210
1,438,650	-	1,438,650
1,438,650	13,531,026	16,513,032
$ 1,641,885	$ 13,575,647	$ 17,939,697

IRVINE UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Local Control Funding Formula	$ -	$ -	$ -
Federal sources	-	97,424	2,308,436
Other State sources	1,636	463,329	160,501
Other local sources	258,696	370,137	4,618,759
Total Revenues	260,332	930,890	7,087,696
EXPENDITURES			
Current			
Instruction	175,339	734,815	-
Instruction-related activities:			
Supervision of instruction	-	67,401	-
School site administration	79,013	180,179	-
Pupil services:			
Food services	-	-	6,778,882
All other pupil services	-	62	-
General administration:			
All other general administration	8,978	20,684	220,887
Plant services	-	2,364	86
Facility acquisition and construction	-	-	-
Total Expenditures	263,330	1,005,505	6,999,855
Excess (Deficiency) of Revenues Over Expenditures	(2,998)	(74,615)	87,841
OTHER FINANCING SOURCES			
Transfers in	2,212	1,621	-
NET CHANGE IN FUND BALANCES	(786)	(72,994)	87,841
Fund Balances - Beginning	786	108,123	1,420,386
Fund Balances - Ending	$ -	$ 35,129	$ 1,508,227

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
$ 3,500,000	$ -	$ 3,500,000
-	-	2,405,860
-	-	625,466
16,792	3,561,254	8,825,638
3,516,792	3,561,254	15,356,964
-	-	910,154
-	-	67,401
-	-	259,192
-	-	6,778,882
-	-	62
-	-	250,549
396,359	182,382	581,191
2,581,352	510,480	3,091,832
2,977,711	692,862	11,939,263
539,081	2,868,392	3,417,701
377,643	-	381,476
916,724	2,868,392	3,799,177
521,926	10,662,634	12,713,855
$ 1,438,650	$ 13,531,026	$ 16,513,032

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that were recorded as revenues in the current year but were unspent. In addition, the Child Care Food Program received funds in prior periods that were unspent, these unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 12,748,682
Child Care Food Program	10.558	27,852
Medi-Cal Billing Option	93.778	(132,444)
Total Schedule of Expenditures of Federal Awards		$ 12,644,090

Local Education Agency Organization Structure

This schedule provides information about the District boundaries and school 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.

IRVINE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 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
Irvine Unified School District
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Irvine Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Irvine Unified School District's basic financial statements, and have issued our report thereon dated December 9, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 16 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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 Irvine 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 Irvine Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Irvine Unified School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Irvine 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 Irvine Unified School District in a separate letter dated December 9, 2015.

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2015

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 OMB CIRCULAR A-133

Governing Board
Irvine Unified School District
Irvine, California

Report on Compliance for Each Major Federal Program

We have audited Irvine Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Irvine Unified School District's (the District) major Federal programs for the year ended June 30, 2015. Irvine 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 requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Irvine 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Irvine 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 Irvine Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Irvine 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, 2015.

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Report on Internal Control Over Compliance

Management of Irvine 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 Irvine 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 OMB Circular A-133, 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 Irvine Unified School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2015

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Irvine Unified School District
Irvine, California

Report on State Compliance

We have audited Irvine Unified School District's compliance with the types of compliance requirements as identified in the *2014-2015 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 Irvine Unified School District's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Irvine 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 *2014-2015 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 Irvine 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. Our audit does not provide a legal determination of Irvine Unified School District's compliance with those requirements.

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

As described in the accompanying schedule of findings and questioned costs, Irvine Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Count, finding 2015-001. Compliance with such requirements is necessary, in our opinion, for Irvine Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Irvine Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

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Unmodified Opinion on Each of the Other Programs

In our opinion, Irvine 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, 2015, 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 Irvine Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
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	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	Yes
Adult Education Maintenance of Effort	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does 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 does not offer an Early Retirement Incentive Program; 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 Middle or Early College High Schools, therefore we did not perform procedures related to the Middle or Early College High Schools.

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

IRVINE UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I, Part A, Basic Grants Low-Income and Neglected
84.027, 84.027A, 84.173, 84.173A	Special Education (IDEA) Cluster
84.367	Title II, Part A, Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs:	$ 379,323
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

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

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

IRVINE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

IRVINE UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

The following findings represent instances of noncompliance and/or 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

2015-001 **Code**

40000 State Compliance

Criteria or Specific Requirements

California Education Code Section 42238.02(b)(4) states that the school districts should revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

Condition

The Unduplicated Local Control Funding Formula Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported eligibility for a total of 37 students for Free and Reduce students on CALPADS Form 1.18 – FRPM/English Learner/Foster Youth – Student List.

Questioned Costs

The District over claimed the total eligible pupils by 37, resulting in a decrease of approximately $17,000 in LCFF funding.

Context

The condition identified was determined through a selection of students from Form 1.18 based on the criteria as stated on the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* Section 19849(a)(2): "Select a representative sample, to achieve a high level of assurance, from the students that are only Free and Reduced eligible as identified under the "Free and Reduced" column and verify there is supporting documentation that indicates the student was eligible for the designation."

The auditor selected a sample of 68 students and obtained student records to support the Free and Reduced designation. Upon review of student records, we found six students who were noted as reclassified from Free and Reduce status; however, the students were noted as Free or Reduced on CALPADS Form 1.18. The auditor inquired further with the District and determined that the CALPADS data was not updated to reflect students' who had been reclassified during the year. The auditor requested that the District identify all remaining students whose status should have been changed to reflect the reclassification from Free and Reduced. The auditor obtained this list and noted a total of 37 students whose status should have been changed in CALPADs from Free and Reduced to another designation.

Effect

The District does not appear to be in compliance with *Education Code* Section 42238.02(b)(4). In addition, the District appears to be over claiming the total Free and Reduced designated pupils by 37 students for a reduction in funding of approximately $17,000.

Cause

It appears that the condition identified has materialized as a result of the CALPADS system not being updated properly to reflect the change in designation of Free and Reduced students.

Recommendation

The District should ensure that students Free and Reduced meal applications properly reflect their designation in CALPADS by updating the students who have changed designations throughout the year.

Corrective Action Plan

The District will update CALPADS throughout the year to ensure that the students' designation is accurately reflected in the system and matches the Free and Reduced meal application status.

IRVINE UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

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

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

Governing Board
Irvine Unified School District
Irvine, California

In planning and performing our audit of the financial statements of Irvine Unified School District (the District) for the year ended June 30, 2015, 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 9, 2015, on the financial statements of Irvine Unified School District.

Observation

Associated Student Body (ASB)

School: Irvine High School, Woodbridge High School, Northwood High School

During the audit visit at all three high schools, it was noted deposits tested were not made in a timely manner. Upon the receipt of cash by the associated student bodies, the deposits ranged from seven days to twenty-three days.

Recommendation:

The District should implement procedures and controls that ensure that all deposits at the schools are being deposited in a timely manner. Due to the high risk of cash, by limiting the number of days between receipt and the deposit the ASB is able to lower their risk of the misappropriation of cash.

Observation

Associated Student Body (ASB)

School: Sierra Vista Middle School

There were several stale dated items noted on the bank reconciliation including stale dated deposits and checks. Some of the reconciling items have been reconciling items on the bank reconciliation for several years.

Recommendation:

The school should review the bank reconciliation and verify that all items outstanding are correctly accounted for. Also the school should write off items that have been outstanding for several years.

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Governing Board
Irvine Unified School District

Observation

Attendance

School: Stonegate Elementary School, Woodbury Elementary School

The Attendance Add/Drop log is not being reconciled to the beginning and ending numbers on the attendance summary.

Recommendation

The schools should implement a monthly reconciliation procedure to review and reconcile the beginning and ending student count numbers.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 9, 2015

APPENDIX C

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF IRVINE AND THE COUNTY OF ORANGE

Set forth below is certain demographic information regarding the City of Irvine (the "City") and the County of Orange (the "County"). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the School District as to accuracy or completeness. Neither the delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix C since the date of the Official Statement. The Bonds are not a debt of the City, the County, the State, or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon. The information and data within this Appendix C is the latest data available; however, the current state of the economy at City, County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the School District.

General

The County is third largest county in California and is located adjacent to the Pacific Ocean and the Counties of Los Angeles, San Bernardino, Riverside and San Diego. The County is located in the most heavily populated region of California, necessitating easy access to road, rail, air and sea transportation. The County is also a major Southern California tourist center with a large number of amusement parks and recreational and entertainment activities. The County's Pacific Coast shoreline includes five state beaches and parks, five Municipal beaches and five County beaches.

The County is a general law county and governed by a five-member Board of Supervisors, each of whom serves for four-year terms. The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, solid waste management, harbors, beaches and parks, life guard services and a variety of public assistance programs.

Population

The following table summarizes population estimates for the City of Irvine, the County and the State from 2011 through 2016.

POPULATION ESTIMATES
City of Irvine, County of Orange and the State of California
2011-2016[(1)]

Year	*City of Irvine*	*County of Orange*	*California*
2011	218,835	3,035,167	37,536,835
2012	225,011	3,069,454	37,881,357
2013	233,484	3,103,654	38,239,207
2014	244,571	3,127,403	38,567,459
2015	251,736	3,151,910	38,907,642
2016	258,386	3,183,011	39,255,883

(1) January 1 data.
Source: California State Department of Finance, Demographic Research Unit.

Income

The following tables show the personal income and per capita income for the County, State of California and United States from 2010 through 2015.

PERSONAL INCOME
County of Orange, State of California, and United States
2010-2015[1]

Year	*County of Orange*	*California*	*United States*
2010	$144,888,672	$1,584,467,300	$12,459,613,000
2011	154,486,157	1,691,002,503	13,223,436,000
2012	164,970,595	1,812,314,643	13,904,485,000
2013	165,857,885	1,849,505,496	14,064,468,000
2014	173,305,650	1,939,527,656	14,683,147,000
2015[1]	N/A	2,061,337,141	15,324,108,725

Note: Dollars in Thousands.
(1) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PER CAPITA PERSONAL INCOME[1]
County of Orange, State of California, and United States
2010-2015[1]

Year	*County of Orange*	*California*	*United States*
2010	$48,007	$42,411	$40,277
2011	50,547	44,852	42,453
2012	53,390	47,614	44,266
2013	53,128	48,125	44,438
2014	55,096	49,985	46,049
2015[2]	N/A	52,651	47,669

(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).
(2) County data not yet available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes the labor force, employment and unemployment figures from 2010 to 2015 for the City of Irvine, the County, the State of California and the United States.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
City of Irvine, County of Orange, State of California and the United States
2010-2015[(1)]

	Area	*Labor Force*	*Employment[(2)]*	*Unemployment[(3)]*	*Unemployment Rate[(4)]*
2010	City of Irvine	109,300	101,200	8,100	7.4%
	Orange County	1,537,200	1,387,400	149,700	9.7
	State of California	18,336,300	16,091,900	2,244,300	12.2
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	City of Irvine	112,400	104,700	7,700	6.8%
	Orange County	1,546,400	1,406,400	140,000	9.1
	State of California	18,415,100	16,258,100	2,157,000	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	City of Irvine	117,500	110,600	7,000	5.9%
	Orange County	1,564,500	1,441,400	123,100	7.9
	State of California	18,551,400	16,627,800	1,923,600	10.4
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	City of Irvine	120,900	115,000	6,000	4.9%
	Orange County	1,569,200	1,465,900	103,300	6.6
	State of California	18,670,100	17,001,000	1,669,000	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	City of Irvine	126,800	121,600	5,200	4.1%
	Orange County	1,578,200	1,491,800	86,400	5.5
	State of California	18,827,900	17,418,000	1,409,900	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	City of Irvine	128,700	124,400	4,300	3.3%
	Orange County	1,597,100	1,525,600	71,500	4.5
	State of California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	146,411,000	8,296,000	5.3

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
(2) Includes persons involved in labor-management trade disputes.
(3) Includes all persons without jobs who are actively seeking work.
(4) The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2015 Benchmark.

Industry

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division ("MD"), which is located entirely within the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES
Santa Ana-Anaheim-Irvine MD
(County of Orange)
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Farming	3,200	2,800	2,900	2,800	2,500
Mining and Logging	600	600	600	700	700
Construction	69,200	71,300	76,800	82,000	90,400
Manufacturing	154,300	158,300	158,000	157,400	156,900
Wholesale Trade	77,300	77,200	79,400	81,900	81,000
Retail Trade	142,600	144,000	145,500	148,500	151,200
Transportation, Warehousing and Utilities	27,500	28,000	27,500	26,500	26,900
Information	23,800	24,300	25,000	24,500	25,500
Financial Activities	104,800	108,300	113,100	113,600	116,800
Professional and Business Services	247,700	260,600	267,300	276,600	285,400
Education and Health Services	172,000	177,800	186,000	190,800	198,800
Leisure and Hospitality	174,000	180,600	187,800	194,500	204,000
Other Services	43,200	44,600	45,600	47,300	48,800
Government	149,300	147,900	148,700	152,200	156,200
Total:	1,389,600	1,425,600	1,464,100	1,498,200	1,545,200

Note: Items may not add to total due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division. March 2015 Benchmark.

Largest Employers

The following table presents the largest employers in the County as of June 30, 2015.

LARGEST EMPLOYERS
County of Orange
2015

Name of Business	*Number of Employees*	*Type of Business*
Walt Disney Co.	27,000	Entertainment
University of California, Irvine	22,385	Education
County of Orange	18,135	County Government
St. Joseph Health System	12,227	Healthcare
Kaiser Permanente	7,000	Healthcare
Boeing Co.	6,890	Aerospace Industries
Walmart	6,000	Retail
Memorial Care Health System	5,650	Healthcare
Bank of America Corporation	5,500	Financial Services
Target Corporation	5,400	Retail

Source: County of Orange Comprehensive Annual Financial Report, Year Ended June 30, 2015.

Building Activity

The following tables summarize building permits and valuations for the County and City during calendar years 2011 through 2015.

BUILDING PERMITS AND VALUATIONS
County of Orange
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Valuation (In $000's)					
Residential	$1,236,970	$1,554,904	$2,596,543	$2,633,471	$2,826,883
Nonresidential	1,300,022	1,271,034	1,578,466	2,000,168	2,203,105
Total Valuation[1]	$2,536,992	$2,825,938	$4,175,009	$4,633,639	$5,029,988
New Dwelling Units (#)					
Single-Family	1,898	2,438	3,889	3,646	3,667
Multi-Family	2,909	3,725	6,564	6,990	7,230
Total:	4,807	6,163	10,453	10,636	10,897

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
City of Irvine
2011-2015

	2011	*2012*	*2013*	*2014*	*2015*
Valuation (In $000's)					
Residential	$391,323	$486,057	$ 982,154	$ 725,260	$ 871,208
Nonresidential	305,913	369,960	446,657	578,149	832,291
Total Valuation[1]	$697,236	$856,017	$1,428,811	$1,303,409	$1,703,499
New Dwelling Units (#)					
Single-Family	857	1,184	1,911	1,660	1,333
Multi-Family	1,776	1,483	3,001	1,662	3,327
Total:	2,633	2,667	4,912	3,322	4,660

(1) Total may not add up due to rounding.
Source: Construction Industry Research Board.

Taxable Sales

The history of taxable transactions in the County and the City from 2010 through 2014 is shown in the following tables.

TAXABLE SALES
County of Orange
2010-2014

Year	*Retail Permits*	*Retail and Food Taxable Transactions*	*Total Permits*	*Total Outlets Taxable Transactions*
2010	58,076	$32,552,107	92,047	$47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012	60,273	38,372,456	93,183	55,230,612
2013	62,208	40,025,929	94,862	57,591,217
2014	65,291	41,288,537	97,943	60,097,128

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

TAXABLE SALES
City of Irvine
2010-2014

Year	*Retail Permits*	*Retail and Food Taxable Transactions*	*Total Permits*	*Total Outlets Taxable Transactions*
2010	3,759	$2,408,289	6,835	$3,924,599
2011	3,896	2,662,813	6,978	4,305,169
2012	4,121	2,912,317	7,259	4,518,099
2013	4,323	3,191,085	7,527	4,851,941
2014	4,587	3,333,363	7,819	5,173,640

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

__________, 2016

Board of Education
Irvine Unified School District

Re: $__________ Bonds of School Facilities Improvement District No. 1
of the Irvine Unified School District
(General Obligation Bonds, 2016 Election, Series 2016A)

Dear Honorable Members of the Board of Education:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Irvine Unified School District (the "District") taken in connection with the authorization and issuance of the Bonds of School Facilities Improvement District No. 1 of the Irvine Unified School District (General Obligation Bonds, 2016 Election, Series 2016A), in the aggregate principal amount of $__________ (the "Bonds"), issued by the District on behalf of the School Facilities Improvement District No. 1 of the Irvine Unified School District (the "Improvement District"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchaser of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued by the District on behalf of the Improvement District pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, Chapters 1, 1.5 and 2 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California, a vote of the qualified electors of the Improvement District voting at an election held on June 7, 2016 and pursuant to a resolution adopted by the Board of Education of the District on September 13, 2016 (the "Bond Resolution").

The Bonds mature on the dates and in the amounts referenced in the Bond Resolution. The Bonds are dated their date of delivery and bear interest payable semiannually on each March 1 and September 1, commencing March 1, 2017, at the rates per annum referenced in the Bond Resolution. The Bonds are registered bonds as set forth in the Bond Resolution.

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

(1) The Bonds have been duly and validly authorized and constitute the legal, valid and binding general obligation bonds of the District issued on behalf of the Improvement District and are enforceable in accordance with the terms of the Bond Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California. The Bonds are obligations of the District but are not a debt of the County of Orange (the "County"), the State of

California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the County, the State of California, or any such political subdivisions is pledged for the payment thereof.

(2) The Bond Resolution has been duly adopted by the Board of Education of the District and constitutes the legal, valid and binding obligation of the District. The Bond Resolution is enforceable in accordance with its terms except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California, provided, however, we express no opinion as to the enforceability of provisions of the Bond Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

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

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations, such interest (and original issue discount) may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

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

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond (to the extent the redemption price at maturity is more than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 4 above) and is exempt from State of California personal income tax.

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

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

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

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

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

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

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

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate"), dated October __, 2016 is executed and delivered by the Irvine Unified School District (the "Issuer") in connection with the issuance and delivery of $__________ Bonds of the School Facilities Improvement District No. 1 of the Irvine Unified School District (General Obligation Bonds, 2016 Election, Series 2016A) (the "Bonds"). The Bonds are being issued pursuant to a resolution of the Issuer, acting on behalf of the School Facilities Improvement District No. 1 of the Irvine Unified School District (the "Improvement District"), adopted on September 13, 2016 (the "Resolution").

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

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

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Dissemination Agent" shall mean, initially, Applied Best Practices, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the Issuer and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

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

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

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

"Participating Underwriter" shall mean __________ as the original purchaser of the Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent upon written direction to, not later than nine months following the end of the Issuer's fiscal year (which shall be April 1 of each year, so long as the Issuer's fiscal year ends on June 30), commencing with the report for the fiscal year ending June 30, 2016, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

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

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

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

(d) The Dissemination Agent shall:

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

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

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

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

(a) (i) The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended; (ii) the most recently adopted budget of the Issuer and, if required to be prepared and filed, the First Interim Report for the current fiscal year. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to the MSRB, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Material financial information and operating data with respect to the Issuer and the Improvement District of the type included in the Official Statement in the following categories (to the extent not included in the Issuer's audited financial statements):

(1) the Issuer's approved annual budget for the then-current fiscal year,

(2) assessed value of taxable property in the Improvement District as shown on the most recent equalized assessment roll,

(3) if the County of Orange no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections and delinquencies for the Improvement District for the most recently completed fiscal year, and

(4) top ten property owners in the Improvement District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value and their percentage of total secured assessed value, if material.

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

SECTION 5. Reporting of Significant Events.

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

(1) principal and interest payment delinquencies;

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

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

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

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

(6) tender offers;

(7) defeasances;

(8) ratings changes; and

(9) bankruptcy, insolvency, receivership or similar proceedings.

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

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

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

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

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

(4) nonpayment related defaults;

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

(6) notices of redemption; and

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

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

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

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

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

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

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

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

SECTION 8. Amendment. (a) This Disclosure Certificate may be amended, in writing, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the Issuer an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

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

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

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

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

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

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is a person or entity other than the Issuer, this Section 11 shall apply. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Bond Owner's, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent hereunder, seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

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

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

Disclosure Representative: Assistant Superintendent, Business Services
Irvine Unified School District
5050 Barranca Parkway
Irvine, California 92604

IRVINE UNIFIED SCHOOL DISTRICT

By: ______________________________
Assistant Superintendent, Business Services

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the School District believes to be reliable, but the School District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 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 annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. 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 bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend 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 School District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the School District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

11. The School District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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APPENDIX G

ORANGE COUNTY INVESTMENT POLICY STATEMENT

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Orange County Treasurer

Investment Policy Statement

(Approved By B.O.S. 12/15/2015)

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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 authorized by 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 as allowed by Government Code. Participating agencies will 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.

No investment will be made in any security with a remaining maturity in excess of five years at the time of purchase, unless the Board of Supervisors has granted express authority to make such an investment specifically or as part of an investment program, which may include investing through pooled funds. Board of Supervisor's approval must occur at least three months prior to the investment or investment programs being effective. Strategies for such deposits may include matching maturities with long-term liabilities.

III. PRUDENCE

Government Code Sections 27000.3 and Section 53600.3 provides 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 $.995 or greater than $1.005, holdings may be sold as necessary to maintain the ratio between $.995 and $1.005.

   The Treasurer will act on a "best efforts" basis to stabilize any short-term pools within the $.995 to $1.005 range. 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 a pool 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 a pool that can be invested in this category, but each issuer is limited to 33% of any individual pool's total assets except that GSE issuers rated 'AA-' or higher with final maturities of 30 days or less are excluded from the calculation of the 33% limit.

3. **COMMERCIAL PAPER**
   Eligible commercial paper shall be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization (NRSRO), shall not exceed 270 days maturity, and shall not exceed 40% of a pool. 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, has commercial paper that is rated “A-1” or higher, or the equivalent, by a NRSRO.

Split ratings (i.e. A2/P1) are not allowed, and two NRSRO ratings are required. No more than 5% of the total assets of any individual pool 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, federal association (as defined by Section 5102 of the California Financial Code) a state-licensed branch of a foreign bank. Issuing banks must be rated by at least two NRSROs, have a short-term rating of not less than A1/P1 and a long-term rating of not less than an “A” from a NRSRO, if any. No more than 30% of any individual pool’s total assets may be invested in negotiable certificates of deposit.

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 (bills of exchange), are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two of the NRSROs and have a short-term rating of at least A1/P1 and a long-term rating of not less than "A" from a NRSRO, if any. 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 $50 million per pool.

9. **MUNICIPAL DEBT**
Such instruments are defined as being issued by a local or state agency, including:

a) 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, 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 any local agency within a 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.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from the NRSROs, and two NRSRO ratings of "A" or better are required unless they have a single NRSRO rating of AA-/AA3 or better. Municipal debt issued by the County of Orange, California is exempt from this credit rating requirement.

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 five 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. Notes eligible for investment shall be rated not less than "A" or its equivalent from at least two NRSROs and if remaining maturity is longer than 397 days, it shall be rated by at least two NRSROs and have obtained no less than an "AA" rating by both. Investments in medium-term notes are limited to no more than 30% 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 an individual pool 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. Supranational securities eligible for investment shall be rated "AA" or better from at least two NRSROs. Investments in supranationals shall not exceed 30 percent of any individual pool's total assets.

VII. INVESTMENT RESTRICTIONS

1. CREDIT RATINGS

Credit ratings will be applied at the time of purchase of a security. A subsequent downgrade in a security's credit rating will not constitute a violation of the Investment Policy Statement. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time. Municipal debt issued by the County of Orange, California is exempt from the credit rating requirements listed below. U.S. Government obligations (as defined in Section VI (1) and VI (2)) are exempt from the credit rating requirements listed below. 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."

a) Short-term debt ratings – (two of the following and not less than the following)

"A-1" or "SP-1"	Standard & Poor's Corporation (S&P)
"P-1" or "MIG 1/VMIG 1"	Moody's Investors Service, Inc. (Moody's)
"F1"	Fitch Ratings (Fitch)

Split ratings are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt must have no less than an "A" rating on long-term debt, if any.

Long-term debt ratings – Investments purchased for short-term pools or with remaining maturities of 397 days or less- shall be rated by at least two NRSROs and have obtained no less than an "A" rating by any. Investments purchased for pools with remaining maturities longer than 397 days, shall be rated by at least two NRSROs and have obtained no less than an "AA" rating by any. 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 should be rated by two NRSROs.

b) Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by two NRSROs 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; or
(b) at least an AA or Aa2 long-term rating.

d) If any issuer is placed on "Credit Watch-Negative" by a 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% Total, no more than 33% in one issuer excluding securities with final maturities of30 days or less	5 Years	5 Years	397 Days
Municipal Debt	100%	30% Total, no more than 5% in one issuer except 10%-County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% Total, no more than 5% in one issuer	5 Years	5 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%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days
State of California Local Agency Investment Fund	$50 million per account	$50 million per pool	N/A	N/A	N/A
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%	20% Total	N/A	N/A	N/A
Investment Pools	100%	20% Total, no more than 10% in one 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 to be invested in longer than five year maturities.

   If short-term and long-term pools are used, the following restrictions will apply:

Short-term pool	13 months (397)
Long-term pool	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 an effective duration not to exceed a leading 1-3 year index +25%.

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 valuation 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, 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, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips, or other 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. <u>ETHICS AND CONFLICT OF INTEREST</u>

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. 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. A detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services. The Treasurer shall conduct an annual review of each broker/dealer's and financial institution's financial condition and registrations to determine whether it should remain on the approved list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The Treasurer shall, at least every two years, review all new broker/dealers and financial institutions submitting a questionnaire to determine if they should be added to the approved list. 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 and 40, 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 Treasurer's Compliance Division. 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 will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code Sections 27130 through 27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the 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 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

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. (Government Code Sections 27000.3, 27133(h), 27136 and 53684(c))

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 180 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.
Evolving/ Neutral	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.

DOMINION BOND RATING SERVICE, LTD: (see Nationally Recognized Statistical Rating Organization)

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, LIBOR, etc.).

INTERESTː 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.; Fitch, Inc.; and Dominion Bond Rating Service, Ltd.

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: One of 21 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), Resolution Trust Corporation (RTC), 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.

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