

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

\$6,000,000
MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Bank Qualified)

Dated: Date of Delivery

Due: August 1, as shown herein

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

The Mountain Empire Unified School District (San Diego County, California) General Obligation Bonds, Election of 2018, Series 2019 (the “Series 2019 Bonds”) are issued by the County of San Diego (the “County”) on behalf of the Mountain Empire Unified School District (the “District”), located in the County, to (i) finance specific construction, repair and improvement projects approved by the voters of the District and (ii) pay costs of delivery with respect to the Series 2019 Bonds. The Series 2019 Bonds were authorized at an election of the voters of the District held on November 6, 2018, at which at least 55% of the voters voting on the proposition authorized the issuance and sale of \$15,000,000 aggregate principal amount of bonds of the District. The Series 2019 Bonds are being issued under the laws of the State of California (the “State”) and pursuant to resolutions of the Board of Supervisors of the County, adopted on April 30, 2019, and the Board of Education of the District, adopted on April 9, 2019.

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

The Series 2019 Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Series 2019 Bonds is payable on each February 1 and August 1 to maturity, commencing August 1, 2019. Principal of the Series 2019 Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Series 2019 Bonds will be issued in denominations of \$5,000 principal amount, or any integral multiple thereof as shown on the inside front cover hereof.

The scheduled payment of principal of and interest on the Series 2019 Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Series 2019 Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



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

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

The Series 2019 Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District; and for the Underwriter by its counsel, Kutak Rock LLP, Denver, Colorado. It is anticipated that the Series 2019 Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about May 31, 2019.

STIFEL

MATURITY SCHEDULE
BASE CUSIP[†]: 62401L

\$6,000,000
MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Bank Qualified)

\$3,045,000 Serial Series 2019 Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number [†]
2020	\$465,000	3.000%	1.510%	BC1
2021	445,000	4.000	1.540	BD9
2022	475,000	1.625	1.590	BE7
2023	140,000	4.000	1.600	BF4
2024	50,000	4.000	1.640	BG2
2025	60,000	4.000	1.680	BH0
2026	65,000	4.000	1.700	BJ6
2027	75,000	4.000	1.770	BK3
2028	80,000	4.000	1.840	BL1
2029	90,000	4.000	1.960	BM9
2030	95,000	5.000	2.060 ^C	BN7
2031	105,000	5.000	2.170 ^C	BP2
2032	120,000	5.000	2.290 ^C	BQ0
2033	130,000	5.000	2.360 ^C	BR8
2034	140,000	5.000	2.410 ^C	BS6
2035	155,000	5.000	2.450 ^C	BT4
2036	170,000	5.000	2.490 ^C	BU1
2037	185,000	5.000	2.530 ^C	BV9

\$410,000 3.000% Term Series 2019 Bonds due August 1, 2039 – Yield 3.080% - CUSIP Number[†] BX5

\$1,255,000 3.000% Term Series 2019 Bonds due August 1, 2044 – Yield 3.190% - CUSIP Number[†] BY3

\$1,290,000 3.000% Term Series 2019 Bonds due August 1, 2048 – Yield 3.230% - CUSIP Number[†] BZ0

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^C Yield to call at par on August 1, 2029.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)

BOARD OF EDUCATION

Tina Heimerdinger, *President*
Beryl Buchanan, *Vice President*
Chris Anderson, *Clerk*
Jeff Morrison, *Member*
Danny Nuñez, *Member*
Gene Patten, *Member*
Mike Shuster, *Member*

DISTRICT ADMINISTRATORS

Dr. Kathy Granger, *Superintendent*
Gary Hobelman, *Assistant Superintendent of Business Services*

PROFESSIONAL SERVICES

Municipal Advisor

KNN Public Finance
Oakland, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent, Registrar and Transfer Agent

County of San Diego Treasurer-Tax Collector
San Diego, California

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\$6,000,000
MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Bank Qualified)

INTRODUCTION

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

General

This Official Statement, which includes the cover page, inside cover page and appendices hereto, is provided to furnish information in connection with the sale of \$6,000,000 aggregate principal amount of Mountain Empire Unified School District (San Diego County, California) General Obligation Bonds, Election of 2018, Series 2019 (the “Series 2019 Bonds”), all as indicated on the inside front cover hereof, to be issued by the County of San Diego (the “County”) on behalf of the Mountain Empire Unified School District (the “District”).

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

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2019 Bonds. Quotations from and summaries and explanations of the Series 2019 Bonds, the resolutions of the Board of Supervisors of the County of San Diego (the “County”) and the Board of Education of the District relating to the Series 2019 Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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

Copies of documents referred to herein and information concerning the Series 2019 Bonds are available from the District by contacting: Mountain Empire Unified School District, 3291 Buckman Springs Road, Pine Valley, California 91962, Attention: Assistant Superintendent of Business Services. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District was formed in 1952 and is located in a rural area of the County, approximately 40 miles east of downtown San Diego. The District encompasses approximately 660 square miles and services

the unincorporated communities of Boulevard, Campo, Descanso, Guatay, Jacumba, Morena Village, Mount Laguna, Pine Valley, Potrero, Tecate and Tierra del Sol. The District currently operates nine schools, consisting of two elementary schools serving grades pre-kindergarten through eighth, two elementary schools serving grades pre-kindergarten through fifth, two middle schools serving grades sixth through eighth, one high school, one alternative education program and one transition program which serves special education students after high school, ages 18 to 22. Enrollment in the District for fiscal year 2018-19 is approximately 1,737 students. The District operates under the jurisdiction of the San Diego County Superintendent of Schools. For additional information about the District, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET” and APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

There are seven independent charter schools within the District, which are not operated by the District or included in the District’s audited financial statements. See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET - DISTRICT FINANCIAL MATTERS – Charter Schools”

Changes from the Preliminary Official Statement

Since May 6, 2019, the date of the Preliminary Official Statement relating to the Series 2019 Bonds, the Governor released the May revision to the proposed fiscal year 2019-20 State budget (the “2019-20 May Revision”) on May 9, 2019. Accordingly, this final Official Statement includes, in addition to pricing information relating to the Series 2019 Bonds, information regarding the 2019-20 May Revision in Appendix A.

THE SERIES 2019 BONDS

Authority for Issuance; Purpose

The Series 2019 Bonds are issued by the County on behalf of the District under the provisions of Chapters 1 and 1.5 of Part 10 of Division 1 of Title 1 of the California Education Code (Section 15140 *et seq.*), Article 4.5 of Division 2, Part 1, Chapter 3 of Title 5 of the Government Code (Section 53506 *et seq.*), and Article XIII A of the California Constitution and pursuant to a resolution adopted by the Board of Supervisors of the County on April 30, 2019 (the “County Resolution”), at the request of the District made by a resolution adopted by the Board of Education of the District on April 9, 2019 (the “District Resolution” and together with the County Resolution, the “Resolutions”).

At an election held on November 6, 2018, the District received authorization under Measure JJ to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$15,000,000 to construct, renovate and equip classrooms, science labs, and school facilities that support college and career readiness in math, science, engineering, technology and skilled trades; improve school safety/security; repair deteriorating roofs, plumbing, and electrical systems (collectively, the “2018 Authorization”). Measure JJ required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of approximately 55.39%. The Series 2019 Bonds represent the first series of authorized bonds to be issued under the 2018 Authorization and will be issued to (i) finance specific construction, repair and improvement projects approved by the voters of the District and (ii) pay costs of delivery with respect to the Series 2019 Bonds. See “–Application and Investment of Series 2019 Bond Proceeds” herein. Following the issuance of the Series 2019 Bonds, there will be \$9,000,000 that remains authorized but unissued under the 2018 Authorization.

Bond Insurance Policy

Concurrently with the issuance of the Series 2019 Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Series 2019 Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 2019 Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement. See “BOND INSURANCE.”

Form and Registration

The Series 2019 Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 principal amount or integral multiples thereof. The Series 2019 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the Series 2019 Bonds. Purchases of Series 2019 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series 2019 Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series 2019 Bonds, beneficial owners of the Series 2019 Bonds (“Beneficial Owners”) will not receive physical certificates representing their ownership interests. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

Payment of Principal and Interest

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

Payment of Series 2019 Bonds. The principal of and interest on the Series 2019 Bonds is payable in lawful money of the United States of America upon the surrender thereof at the office of the Treasurer-Tax Collector of the County, as paying agent (the “Paying Agent”), at the maturity thereof or upon redemption prior to maturity.

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

Redemption

Optional Redemption. The Series 2019 Bonds maturing on or before August 1, 2029, are not subject to optional redemption prior to their respective stated maturity dates. The Series 2019 Bonds maturing on or after August 1, 2030, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2029, at a redemption price equal to the principal amount of the Series 2019 Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The \$410,000 term Series 2019 Bonds maturing on August 1, 2039 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2038	\$200,000
2039 [†]	210,000

[†] Maturity.

The principal amount of the \$410,000 term Series 2019 Bonds maturing on August 1, 2039, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series 2019 Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The \$1,255,000 term Series 2019 Bonds maturing on August 1, 2044 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2040	\$225,000
2041	235,000
2042	250,000
2043	265,000
2044 [†]	280,000

[†] Maturity.

The principal amount of the \$1,255,000 term Series 2019 Bonds maturing on August 1, 2044, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series 2019 Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

The \$1,290,000 term Series 2019 Bonds maturing on August 1, 2048 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2045	\$295,000
2046	315,000
2047	330,000
2048 [†]	350,000

[†] Maturity.

The principal amount of the \$1,290,000 term Series 2019 Bonds maturing on August 1, 2048, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series 2019 Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Bonds for Redemption. Whenever less than all of the outstanding Series 2019 Bonds are to be redeemed, the Paying Agent, upon written direction from the District, will select the Series 2019 Bonds to be redeemed as so directed, and if not so directed in inverse order of maturity, and within a maturity, the Paying Agent will select Series 2019 Bonds for redemption by lot. Redemption by lot will be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Series 2019 Bond to be redeemed in part will be in the Principal Amount of \$5,000 or any integral multiple thereof. The Paying Agent will promptly notify the District of the Series 2019 Bonds so selected for redemption on such date. In the event that term Series 2019 Bonds are subject to optional redemption, there will be pro rata reductions in the annual sinking fund payments due on such outstanding term Series 2019 Bonds.

Form of Notice of Redemption. The Paying Agent will give notice of the redemption of the Series 2019 Bonds (“Redemption Notice”) at the expense of the District. Such notice will specify: (i) that the Series 2019 Bonds or a designated portion thereof are to be redeemed; (ii) if less than all of the then outstanding Series 2019 Bonds are to be called for redemption, will designate the numbers (or state that all Series 2019 Bonds between two stated numbers both inclusive have been called for redemption) and CUSIP® numbers, if any, of the Series 2019 Bonds to be redeemed; (iii) the date of notice and the date of redemption; (iv) the place or places where the redemption will be made; and (v) descriptive information regarding the Series 2019 Bonds and the specific Series 2019 Bonds to be redeemed, including the dated date, interest rate and stated maturity date of each. Such notice will further state that on the specified date there will become due and payable upon each Series 2019 Bond to be redeemed, the portion of the principal amount of such Series 2019 Bond to be redeemed, together with interest accrued, to the date of redemption, and redemption premium, if any, and that from and after such date interest with respect thereto will cease to accrue.

Provision of Notice of Redemption. Any Redemption Notice will be mailed to the registered Owners of the Series 2019 Bonds by first class mail, postage prepaid, to the District and the County and the respective Owners of any registered Series 2019 Bonds designated for redemption at their addresses appearing on the applicable bond register, in every case at least twenty (20) days, but not more than forty-five (45) days, prior to the designated redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Series 2019 Bonds nor entitle the Owner thereof to interest beyond the date given for redemption. A

certificate provided by the Paying Agent that notice of such redemption has been given will be conclusive as against all parties, and it will not be open to a bond Owner to show that he or she failed to receive notice of such redemption. In case of the redemption of all of the outstanding Series 2019 Bonds of any one maturity, notice of redemption will be given by mailing, except that the notice of redemption need not specify the serial numbers of the Series 2019 Bond of such maturity.

Neither failure to receive or failure to send, to the applicable securities depositories or informational services, any Redemption Notice nor any defect in any such Redemption Notice so given will affect the sufficiency of the proceedings for the redemption of the affected Series 2019 Bonds. Neither the failure to receive such notice, the failure to send such notice, nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the redemption of such Series 2019 Bonds or the cessation of accrual of interest, as applicable, represented thereby from and after the redemption date.

Contingent Redemption; Rescission of Redemption. Any Redemption Notice may specify that optional redemption of the Series 2019 Bonds designated for redemption on the specified date will be subject to the receipt by the District of monies sufficient to cause such redemption (and will specify the proposed source of such monies), and neither the District nor the County will have any liability to the Owners of any Series 2019 Bonds, or any other party, as a result of the District's failure to redeem the Series 2019 Bonds designated for redemption as a result of insufficient monies therefor.

Additionally, the District may rescind any optional redemption of the Series 2019 Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Series 2019 Bonds so called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Series 2019 Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission. Neither the District nor the County will have any liability to the Owners of any Series 2019 Bonds, or any other party, as a result of the District's decision to rescind redemption of any Series 2019 Bonds pursuant to the provisions of the County Resolution.

Payment of Redeemed Series 2019 Bonds. When a Redemption Notice has been given substantially as provided for in the County Resolution, and, when the amount necessary for the redemption of the Series 2019 Bonds called for redemption (principal and interest, as applicable, and redemption premium, if any) is set aside for that purpose in the Debt Service Fund of the District (the "Debt Service Fund"), the Series 2019 Bonds designated for redemption will become due and payable on the date fixed for redemption thereof and upon presentation and surrender of said Series 2019 Bonds at the place specified in the Redemption Notice, such Series 2019 Bonds will be redeemed and paid at the redemption price from funds held in the Debt Service Fund.

Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Series 2019 Bonds will bear or include the CUSIP® number identifying, by issue and maturity, the Series 2019 Bonds being redeemed with the proceeds of such check or other transfer.

If on such redemption date, money for the redemption of all the Series 2019 Bonds to be redeemed, together with interest to such redemption date, will be available therefor, and if notice of redemption thereof will have been given as aforesaid, then from and after such redemption date, interest with respect to the Series 2019 Bonds to be redeemed will cease to accrue. All money held for the redemption of Series 2019 Bonds will be held in trust for the account of the registered Owners of the Series 2019 Bonds so to be redeemed. All unpaid interest payable at or prior to the designated redemption date will continue to be payable to the respective Owners, but without interest thereon.

Effect of Notice of Redemption. Notice having been given as aforesaid, and the monies for the redemption (including the interest to the applicable date of redemption) having been set aside in the Debt Service Fund, the Series 2019 Bonds to be redeemed will become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Series 2019 Bonds to be redeemed, together with interest to such redemption date, will be 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 as aforesaid, then from and after such redemption date, interest with respect to the Series 2019 Bonds to be redeemed will cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Series 2019 Bonds will be held in trust for the account of the Owners of the Series 2019 Bonds so to be redeemed.

Purchase in Lieu of Redemption. In lieu of, or partially in lieu of, any mandatory sinking fund redemption of Series 2019 Bonds pursuant to the terms thereof, monies in the Debt Service Fund may be used to purchase the outstanding Series 2019 Bonds that were to be redeemed with such funds. Purchases of outstanding Series 2019 Bonds may be made by the District or the County Treasurer (as defined herein) through the Paying Agent prior to the selection of Series 2019 Bonds for redemption at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest. Any accrued interest payable upon the purchase of Series 2019 Bonds may be paid from the Debt Service Fund for payment of interest on the next following Interest Payment Date. Any Series 2019 Bond purchased in lieu of redemption will be transmitted to the Paying Agent and will be canceled by the Paying Agent upon surrender thereof and will not be re-issued or resold.

Partial Redemption of Series 2019 Bonds. Upon the surrender of any Series 2019 Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Series 2019 Bond or Series 2019 Bonds of like tenor and maturity and of authorized denominations equal in transfer amounts to the unredeemed portion of the Series 2019 Bond surrendered. Such partial redemption will be valid upon payment of the amount required to be paid to such Owner, and the District will be released and discharged thereupon from all liability to the extent of such payment.

Cancellation of Redeemed Series 2019 Bonds. All Series 2019 Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the County Resolution will be canceled upon surrender thereof and be delivered to or upon the order of the County and the District. All or any portion of a Series 2019 Bond purchased by the County Treasurer or the District pursuant to the County Resolution will be canceled by the Paying Agent, and the Paying Agent will provide a written certification of such cancellation and destruction to the District.

Series 2019 Bonds No Longer Outstanding. When any Series 2019 Bonds (or portion(s) thereof), which have been duly called for redemption prior to maturity under the provisions of the County Resolution, 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 monies will be held by the Paying Agent or a bank or trust company pursuant to the County Resolution irrevocably in trust for the payment of the redemption price of such Series 2019 Bonds or portions thereof, and, in the case of Series 2019 Bonds, accrued interest with respect thereto to the date fixed for redemption, all as provided in the County Resolution, then such Series 2019 Bonds will no longer be deemed outstanding and will be surrendered to the Paying Agent for cancellation.

Application and Investment of Series 2019 Bond Proceeds

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

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Bank Qualified)

Estimated Sources and Uses of Funds

Sources of Funds:

Aggregate Principal Amount of Series 2019 Bonds	\$6,000,000.00
Plus Net Original Issue Premium	270,790.90
Total Sources of Funds	<u>\$6,270,790.90</u>

Uses of Funds:

Deposit to Building Fund	\$5,830,000.00
Deposit to Debt Service Fund ⁽¹⁾	219,786.74
Costs of Issuance ⁽²⁾	221,004.16
Total Uses of Funds	<u>\$6,270,790.90</u>

⁽¹⁾ Consists of premium received by the District.

⁽²⁾ Includes legal fees, municipal advisor fees, Underwriter's discount, rating agency fees, bond insurance premium, printing fees, and other miscellaneous expenses.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the Series 2019 Bonds less amounts necessary to pay costs of issuance will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund") and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series 2019 Bonds were authorized. Any premium or accrued interest on the Series 2019 Bonds received by the District will be deposited in the Debt Service Fund in the County treasury. Interest and earnings on each fund will accrue to that fund. All funds held by the County Treasurer-Tax Collector (the "County Treasurer") in the Building Fund and the Debt Service Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX E – "COUNTY OF SAN DIEGO INVESTMENT POOL" for a description of the permitted investments under the investment policy of the County. In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund of the District may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the Series 2019 Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

Debt Service

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

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Bank Qualified)**

Year Ending August 1,	Principal	Interest	Total Debt Service
2019	-	\$ 34,824.01	\$ 34,824.01
2020	\$ 465,000.00	205,518.76	670,518.76
2021	445,000.00	191,568.76	636,568.76
2022	475,000.00	173,768.76	648,768.76
2023	140,000.00	166,050.00	306,050.00
2024	50,000.00	160,450.00	210,450.00
2025	60,000.00	158,450.00	218,450.00
2026	65,000.00	156,050.00	221,050.00
2027	75,000.00	153,450.00	228,450.00
2028	80,000.00	150,450.00	230,450.00
2029	90,000.00	147,250.00	237,250.00
2030	95,000.00	143,650.00	238,650.00
2031	105,000.00	138,900.00	243,900.00
2032	120,000.00	133,650.00	253,650.00
2033	130,000.00	127,650.00	257,650.00
2034	140,000.00	121,150.00	261,150.00
2035	155,000.00	114,150.00	269,150.00
2036	170,000.00	106,400.00	276,400.00
2037	185,000.00	97,900.00	282,900.00
2038	200,000.00	88,650.00	288,650.00
2039	210,000.00	82,650.00	292,650.00
2040	225,000.00	76,350.00	301,350.00
2041	235,000.00	69,600.00	304,600.00
2042	250,000.00	62,550.00	312,550.00
2043	265,000.00	55,050.00	320,050.00
2044	280,000.00	47,100.00	327,100.00
2045	295,000.00	38,700.00	333,700.00
2046	315,000.00	29,850.00	344,850.00
2047	330,000.00	20,400.00	350,400.00
2048	350,000.00	10,500.00	360,500.00
Total:	\$6,000,000.00	\$3,262,680.29	\$9,262,680.29

Outstanding Bonds

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

The District received authorization at an election held on June 2, 1998, to issue bonds of the District under Proposition N in an aggregate principal amount not to exceed \$3,200,000 (the “1998 Authorization”). Proposition N required approval by at least two-thirds of the votes cast by eligible voters within the District and received an approval vote of approximately 70.28%. On October 14, 1998, the County, on behalf of the District, issued the District’s General Obligation Bonds, 1998 Election, Series A (the “Series 1998A Bonds”), in the aggregate principal amount of \$3,200,000, as its first and only series of bonds issued under the 1998 Authorization. The proceeds of the Series 1998A Bonds were used to improve or construct various school facilities in the District.

On August 26, 2010, the District issued its 2010 General Obligation Refunding Bonds (the “2010 Refunding Bonds”) in the aggregate principal amount of \$2,535,000 to refund certain maturities of the Series 1998A Bonds. As a result, the Series 1998A Bonds are no longer outstanding.

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Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District, assuming no early optional redemptions.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Obligation Bonds – Aggregate Debt Service**

Bond Year Ending	2010 Refunding Bonds ⁽¹⁾	Series 2019 Bonds ⁽²⁾	Aggregate Debt Service
2019	\$ 277,200.00	\$ 34,824.01	\$ 312,024.01
2020	288,200.00	670,518.76	958,718.76
2021	288,400.00	636,568.76	924,968.76
2022	303,200.00	648,768.76	951,968.76
2023	312,000.00	306,050.00	618,050.00
2024	-	210,450.00	210,450.00
2025	-	218,450.00	218,450.00
2026	-	221,050.00	221,050.00
2027	-	228,450.00	228,450.00
2028	-	230,450.00	230,450.00
2029	-	237,250.00	237,250.00
2030	-	238,650.00	238,650.00
2031	-	243,900.00	243,900.00
2032	-	253,650.00	253,650.00
2033	-	257,650.00	257,650.00
2034	-	261,150.00	261,150.00
2035	-	269,150.00	269,150.00
2036	-	276,400.00	276,400.00
2037	-	282,900.00	282,900.00
2038	-	288,650.00	288,650.00
2039	-	292,650.00	292,650.00
2040	-	301,350.00	301,350.00
2041	-	304,600.00	304,600.00
2042	-	312,550.00	312,550.00
2043	-	320,050.00	320,050.00
2044	-	327,100.00	327,100.00
2045	-	333,700.00	333,700.00
2046	-	344,850.00	344,850.00
2047	-	350,400.00	350,400.00
2048	-	360,500.00	360,500.00
Total	<u>\$1,469,000.00</u>	<u>\$9,262,680.29</u>	<u>\$10,731,680.29</u>

⁽¹⁾ The 2010 Refunding Bonds mature on September 1 in the years shown above.

⁽²⁾ The Series 2019 Bonds mature on August 1 in the years shown above.

Source: KNN Public Finance

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Series 2019 Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Debt Service Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

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

Statutory Lien on Taxes (Senate Bill 222)

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

Pledge of Tax Revenues

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

Property Taxation System

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

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

Assessed Valuation of Property Within the District

Taxable property located in the District has a fiscal year 2018-19 assessed value of \$1,479,707,149. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

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

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

the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State’s methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

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

The following table sets forth the assessed valuation of the various classes of property in the District’s boundaries from fiscal year 1999-2000 through 2018-19.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Assessed Valuations
Fiscal Years 1999-2000 through 2018-19

Fiscal Year Ending	Local Secured	Utility	Unsecured	Total Valuation	Annual % Change
1999-2000	\$ 511,748,998	\$1,464,659	\$ 6,089,585	\$ 519,303,242	-
2000-01	536,889,586	1,445,667	7,303,195	545,638,448	5.07%
2001-02	564,779,942	1,554,133	8,241,672	574,575,747	5.30
2002-03	600,448,565	1,484,823	8,203,899	610,137,287	6.19
2003-04	647,260,097	1,583,215	9,394,380	658,237,692	7.88
2004-05	713,945,141	1,793,350	7,545,164	723,283,655	9.88
2005-06	822,367,123	2,044,395	9,847,612	834,259,130	15.34
2006-07	950,160,030	2,364,990	73,960,066	1,026,485,086	23.04
2007-08	1,041,804,214	1,066,853	73,566,810	1,116,437,877	8.76
2008-09	1,081,489,213	1,096,802	76,163,567	1,158,749,582	3.79
2009-10	1,007,766,737	1,105,454	82,980,037	1,091,852,228	-5.77
2010-11	981,225,965	1,117,724	85,428,371	1,067,772,060	-2.21
2011-12	958,235,506	1,179,290	74,759,514	1,034,174,310	-3.15
2012-13	943,680,494	1,182,613	81,497,640	1,026,360,747	-0.76
2013-14	954,443,030	1,139,970	75,090,339	1,030,673,339	0.42
2014-15	980,411,320	1,152,696	77,787,113	1,059,351,129	2.78
2015-16	1,010,886,426	1,164,309	74,250,664	1,086,301,399	2.54
2016-17	1,042,846,284	1,183,130	71,967,427	1,115,996,841	2.73
2017-18	1,090,927,098	1,241,078	71,834,059	1,164,002,235	4.30
2018-19	1,149,146,330	1,370,640	329,190,179	1,479,707,149	27.12

Source: California Municipal Statistics, Inc.; Annual % change provided by KNN Public Finance.

In fiscal year 2018-19, the District’s assessed valuation grew by 27.12% due to the inclusion of the Tule Wind Farm, which consists of 57 wind turbines that were recently constructed for power generation, on the tax roll for fiscal year 2018-19. The Tule Wind Farm has an unsecured assessed valuation of \$267,866,627. Based on its secured assessed valuation of \$2,729,518, the Tule Wind Farm is the eleventh largest taxpayer in the District, comprising 0.24% of the local secured assessed valuation in the District. See “ – *Largest Taxpayers in District*” herein.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use

(such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, fire, toxic dumping, etc. The District is located in a rural area of the County, approximately 40 miles east of downtown San Diego. The District is surrounded by native vegetation, and there is a high risk of wildfires in this region. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

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

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

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

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

See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT

REVENUES AND APPROPRIATIONS – Limitations on Revenues” for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District’s fiscal year 2018-19 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$36.99 million and its net bonding capacity is approximately \$35.69 million (taking into account current outstanding debt before issuance of the Series 2019 Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District’s bonding capacity.

Assessed Valuation by Jurisdiction. The following table describes the percentage and value of the total assessed valuation of the property within the District’s boundaries by jurisdiction for fiscal year 2018-19. All of the property in the District is located in unincorporated portions of the County.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
2018-19 Assessed Valuation by Jurisdiction**

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
Unincorporated San Diego County	\$1,479,707,149	100.00%	\$73,971,590,424	2.00%
Total District	\$1,479,707,149	100.00%		
San Diego County	\$1,479,707,149	100.00%	\$526,029,984,862	0.28%

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2018-19 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
2018-19 Assessed Valuation and Parcels by Land Use**

	2018-19 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	\$ 160,814,104	13.99%	1,547	18.02%
Commercial	30,919,032	2.69	88	1.02
Vacant Commercial	4,522,205	0.39	42	0.49
Industrial	7,722,155	0.67	18	0.21
Vacant Industrial	2,026,659	0.18	8	0.09
Recreational	1,478,687	0.13	12	0.14
Government/Social/Institutional	1,018,713	0.09	1,013	11.80
Miscellaneous	204,474	0.02	6	0.07
Subtotal Non-Residential	\$ 208,706,029	18.16%	2,734	31.84%
Residential:				
Single Family Residence	\$ 704,423,269	61.30%	3,178	37.01%
Condominium/Townhouse	1,764,408	0.15	42	0.49
Mobile Home	122,232,245	10.64	629	7.33
Mobile Home Park	14,394,635	1.25	20	0.23
2-4 Residential Units	37,754,468	3.29	125	1.46
5+ Residential Units/Apartments	2,131,559	0.19	6	0.07
Miscellaneous Residential	1,833,928	0.16	190	2.21
Vacant Residential	55,905,789	4.86	1,663	19.37
Subtotal Residential	\$ 940,440,301	81.84%	5,853	68.16%
TOTAL	\$1,149,146,330	100.00%	8,587	100.00%

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

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District’s boundaries for fiscal year 2018-19, including the average and median per parcel assessed value.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
2018-19 Per Parcel Assessed Valuation of Single Family Homes**

	Number of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential:	3,178	\$704,423,269	\$221,656	\$194,208

2018-19 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	96	3.021%	3.021%	\$ 1,573,044	0.223%	0.223%
\$25,000 - \$49,999	165	5.192	8.213	6,336,272	0.899	1.123
\$50,000 - \$74,999	231	7.269	15.481	14,679,416	2.084	3.207
\$75,000 - \$99,999	248	7.804	23.285	21,655,714	3.074	6.281
\$100,000 - \$124,999	256	8.055	31.340	28,438,711	4.037	10.318
\$125,000 - \$149,999	239	7.520	38.861	32,821,033	4.659	14.977
\$150,000 - \$174,999	212	6.671	45.532	34,552,356	4.905	19.882
\$175,000 - \$199,999	174	5.475	51.007	32,421,118	4.603	24.485
\$200,000 - \$224,999	172	5.412	56.419	36,473,732	5.178	29.663
\$225,000 - \$249,999	228	7.174	63.593	54,058,824	7.674	37.337
\$250,000 - \$274,999	171	5.381	68.974	44,636,782	6.337	43.674
\$275,000 - \$299,999	162	5.098	74.072	46,224,657	6.562	50.236
\$300,000 - \$324,999	179	5.632	79.704	55,328,827	7.854	58.090
\$325,000 - \$349,999	102	3.210	82.914	34,373,899	4.880	62.970
\$350,000 - \$374,999	97	3.052	85.966	34,952,857	4.962	67.932
\$375,000 - \$399,999	78	2.454	88.420	29,975,190	4.255	72.187
\$400,000 - \$424,999	77	2.423	90.843	31,345,855	4.450	76.637
\$425,000 - \$449,999	48	1.510	92.354	20,900,374	2.967	79.604
\$450,000 - \$474,999	50	1.573	93.927	22,925,694	3.255	82.858
\$475,000 - \$499,999	25	0.787	94.714	12,181,983	1.729	84.588
\$500,000 and greater	168	5.286	100.000	108,566,931	15.412	100.000
Total	3,178	100.000%		\$704,423,269	100.000%	

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

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2018-19 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Largest 2018-19 Local Secured Taxpayers**

Property Owner	Primary Land Use	2018-19 Assessed Valuation	Percent of Total ⁽¹⁾
1. Empire II LLC	Rural Land	\$ 9,862,808	0.86%
2. MX Ranch LLC	Rural Land	5,423,608	0.47
3. Jacumba Valley Ranch	Rural Land	5,412,306	0.47
4. Rough Acres Foundation	Rural Land	4,680,119	0.41
5. Shayisheng Enterprises III LLC	Rural Land	3,665,871	0.32
6. MIC-Sahara LLC	Residential Properties	3,114,319	0.27
7. Kreutzkamp Spouses Trust	Residential Properties	3,019,004	0.26
8. John S. Ray	Apartments	3,010,406	0.26
9. Star Ranch Enterprises LLC	Rural Land	3,000,617	0.26
10. LB Three LLC	Trailer Park	2,873,986	0.25
11. Tule Wind LLC	Power Generation	2,729,518	0.24
12. Kumeyaay Wind LLC	Power Generation	2,682,895	0.23
13. Westminster Miller Valley LLC	Rural Land	2,642,011	0.23
14. New Thousand Trails Inc.	Trailer Park	2,549,364	0.22
15. Heavenly Oaks Residential Community LLC	Trailer Park	2,503,482	0.22
16. Rancho Developers Inc.	Residential Properties	2,500,000	0.22
17. Woods/Mitchell Family Trust	Residential Properties	2,413,854	0.21
18. Travis H. Calvin Jr.	Restaurant	2,334,833	0.20
19. Ibrahim Brothers LLC	Service Station	2,176,285	0.19
20. Rancho Corta Madera Inc.	Rural Land	2,164,129	0.19
		\$68,759,415	5.98%

⁽¹⁾ 2018-19 local secured assessed valuation: \$1,149,146,330
Source: California Municipal Statistics, Inc.

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

Tax Rates

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

The rate of tax necessary to pay fixed debt service on the Series 2019 Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2019 Bonds is based on the prior year’s secured property tax rate.) Economic and other factors beyond the District’s control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational,

hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series 2019 Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 91-44). This Tax Rate Area comprises approximately 19.41% of the total assessed value of the District for fiscal year 2018-19.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 91-44)
Fiscal Years 2014-15 through 2018-19**

	2014-15	2015-16	2016-17	2017-18	2018-19
General	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
Mountain Empire Unified School District	.01881	.01806	.01903	.01887	.01444
Grossmont-Cuyamaca Community College District	.04650	.04539	.04005	.04671	.04225
Total Tax Rate	\$1.06531	\$1.06345	\$1.05908	\$1.06558	\$1.05669

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2018 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2018 Authorization will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2019 Bonds, the District projects that the maximum tax rate required to repay the Series 2019 Bonds will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2019 Bonds and any other series of bonds issued under the 2018 Authorization in each year.

Tax Charges and Delinquencies

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

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

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

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

The following table sets forth the secured property tax charges on property located in the County for fiscal years 2013-14 through 2017-18. The County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest, and the County does not provide a breakdown of the delinquencies with respect to property located in the District. See “*Teeter Plan*” below.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2013-14 through 2017-18**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	Percent Delinquent June 30
2013-14	\$5,442,233.94	_(2)	_(2)
2014-15	4,923,939.50	_(2)	_(2)
2015-16	5,061,325.72	_(2)	_(2)
2016-17	5,219,744.66	_(2)	_(2)
2017-18	5,442,233.94	_(2)	_(2)

⁽¹⁾ 1% General Fund apportionment.

⁽²⁾ San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

Source: California Municipal Statistics, Inc.

Teeter Plan. The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State. Under the Teeter Plan, the County distributes to each participating local tax levying agency, including school districts, the amount levied on the secured and supplemental tax rolls, instead of the amount actually collected. In return, the County receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency in the absence of the Teeter Plan.

The County’s policy is that any new taxing entity that includes its levy on the County’s secured and supplemental tax rolls is qualified to be included in the Teeter Plan. The Teeter Plan is to remain in effect unless the County Board of Supervisors 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 receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on

the secured rolls in that agency. The County applies the Teeter Plan to taxes levied on the secured roll for repayment of school district general obligation bonds.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective March 19, 2019 for debt outstanding as of April 1, 2019. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

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

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Statement of Direct and Overlapping Bonded Debt**

March 19, 2019

2018-19 Assessed Valuation: \$1,479,707,149

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/19</u>
Grossmont-Cuyamaca Community College District	2.894%	\$ 9,390,173
Mountain Empire Unified School District	100.000	1,305,000 ⁽¹⁾
Grossmont Healthcare District	1.636	4,227,233
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$14,922,406
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	0.281%	\$ 717,576
San Diego County Pension Obligation Bonds	0.281	1,429,630
San Diego County Superintendent of Schools Certificates of Participation	0.281	28,339
Grossmont-Cuyamaca Community College District General Fund Obligations	2.894	12,155
TOTAL OVERLAPPING GENERAL FUND DEBT		\$ 2,187,700
COMBINED TOTAL DEBT		\$17,110,106 ⁽²⁾

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$1,305,000)	0.09%
Total Overlapping Tax and Assessment Debt.....	1.01%
Combined Total Debt.....	1.16%

⁽¹⁾ Excludes Series 2019 Bonds.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2019 Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Series 2019 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Series 2019 Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: **www.buildamerica.com**.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at **www.standardandpoors.com**. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Series 2019 Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Series 2019 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Series 2019 Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Series 2019 Bonds, nor does it guarantee that the rating on the Series 2019 Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Series 2019 Bonds or the advisability of investing in the Series 2019 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE."

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest

on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

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

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

Although Bond Counsel is of the opinion that interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes,

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

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

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

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

OTHER LEGAL MATTERS

Legal Opinion

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

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series 2019 Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than nine months following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than March 31, 2020) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) of the Securities and Exchange Commission (the “SEC”).

In the past five years, the District did not timely file a notice of a rating change.

KNN Public Finance has been engaged by the District to serve as the District’s dissemination agent in connection with its prior undertakings and its undertakings relating to the Series 2019 Bonds.

Litigation

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

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

Bank Qualified

The District has designated the Series 2019 Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank qualified” investments.

MISCELLANEOUS

Ratings

Moody's Investors Service ("Moody's") has assigned an underlying rating of "A3" to the Series 2019 Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from the District, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series 2019 Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2019 Bonds. Neither the Underwriter nor the District has undertaken any responsibility after the offering of the Series 2019 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

In addition, S&P has assigned its rating of "AA" to the Series 2019 Bonds with the understanding that, upon delivery of the Series 2019 Bonds, the Policy will be delivered by BAM. See "BOND INSURANCE." Such rating is expected to be assigned solely as a result of the issuance of the Policy and will reflect only the rating agency's view of the claims-paying ability and financial strength of BAM. Neither the District nor the Underwriter have made any independent investigation of the claims-paying ability of BAM and no representation is made that any insured rating of the Series 2019 Bonds based upon the purchase of the Policy will remain higher than the rating agency's underlying rating of the Series 2019 Bonds described above, which did not take bond insurance into account. The existence of the Policy will not, of itself, negatively affect such underlying rating. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Series 2019 Bonds and the claims paying ability of BAM, particularly over the life of the investment. Without regard to any bond insurance, the Series 2019 Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series 2019 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2019 BONDS." However, any downward revision or withdrawal of any rating of BAM may have an adverse effect on the market price or marketability of the Series 2019 Bonds.

Underwriting

The Series 2019 Bonds are being purchased for reoffering to the public by the Underwriter pursuant to the terms of a bond purchase agreement executed on May 15, 2019 (the "Purchase Agreement"), by and between the District and the Underwriter. The Underwriter has agreed to purchase the Series 2019 Bonds at a price of \$6,219,786.74. The Purchase Agreement provides that the Underwriter will purchase all of the Series 2019 Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

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

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APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

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

THE DISTRICT

Introduction

The District was formed in 1952 and is located in a rural area of the County, approximately 40 miles east of downtown San Diego. The District encompasses approximately 660 square miles and services the unincorporated communities of Boulevard, Campo, Descanso, Guatay, Jacumba, Morena Village, Mount Laguna, Pine Valley, Potrero, Tecate and Tierra del Sol. The District currently operates nine schools, consisting of two elementary schools serving grades pre-kindergarten through eighth, two elementary schools serving grades pre-kindergarten through fifth, two middle schools serving grades sixth through eighth, one high school, one alternative education program and one transition program which serves special education students after high school, ages 18 to 22. Enrollment in the District for fiscal year 2018-19 is approximately 1,737 students. The District operates under the jurisdiction of the San Diego County Superintendent of Schools. For additional information about the District, see APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

There are seven independent charter schools within the District, which are not operated by the District or included in the District's audited financial statements. See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET - DISTRICT FINANCIAL MATTERS – Charter Schools" herein for more information.

Board of Education

The District is governed by a seven-member Board of Education (the "Board"), each member of which is a voting member and elected by voters within the District to serve alternating four-year terms, in alternate slates of three and four, at elections held every two years. Each December the Board elects a President, Vice President, and Clerk to serve one-year terms. Current voting members of the Board, together with their office and the date their current term expires, are listed below.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)**

Board of Education

Name	Office	Term Expires
Tina Heimerdinger	President	December 2020
Beryl Buchanan	Vice President	December 2022
Chris Anderson	Clerk	December 2020
Jeff Morrison	Member	December 2020
Danny Nuñez	Member	December 2022
Gene Patten	Member	December 2022
Mike Shuster	Member	December 2022

Superintendent and Business Services Personnel

The Superintendent of the District is appointed by and reports to the Board. The Superintendent is responsible for management of the District’s day-to-day operations and supervises the work of other key District administrators. Dr. Kathy Granger was appointed by the Board to serve as Superintendent in December 2013. Information concerning the District’s Superintendent and the District’s Assistant Superintendent of Business Services is set forth below.

Dr. Kathy Granger, Superintendent. Dr. Granger began her public education career in 1985 as a teacher, and then served in the positions of curriculum coordinator, assistant principal and principal of both elementary and middle schools. She was the Assistant Superintendent of Human Resources for the Walnut Valley Unified School District prior to becoming the Superintendent of the Mountain Empire Unified School District, the position she assumed in 2013. Dr. Granger earned her Bachelor of Arts Degree in Mathematics with honors from the University of the South in Sewanee, Tennessee; Master of Arts degree in Education from Chapman University (Orange, California); and a Doctor of Education in Educational Leadership and School Improvement from La Sierra University (La Sierra, California).

Gary Hobelman, Assistant Superintendent of Business Services. Mr. Hobelman started his career in school business 15 years ago and has served as a Business Manager in two elementary school districts and Assistant Superintendent of Business for two unified school districts. He started with Mountain Empire Unified School District in January of 2015. Mr. Hobelman has a Bachelor’s Degree from the University of Nebraska in Business Administration.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District’s operating income consists primarily of two components: a State portion funded from the State’s general fund in accordance with the Local Control Funding Formula (the “Local Control Funding Formula” or “LCFF”) (see “– *Allocation of State Funding to School Districts; Local Control Funding Formula*” herein) and a local portion derived from the District’s share of the 1% local *ad valorem* tax authorized by the State Constitution (see “Local Sources of Education Funding” herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has projected to receive approximately 67.46% of its general fund revenues from State funds (not including the local portion derived from the District’s share of the local *ad valorem* tax), projected at approximately \$15.84 million in fiscal year 2018-19. Such amount includes both the State funding provided under the LCFF as well as other State

revenues (see “–*Allocation of State Funding to School Districts; Local Control Funding Formula*” and “– *Attendance and LCFF*” and “Other District Revenues – *Other State Revenues*” below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District’s revenues and operations.

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

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

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2018-19 State budget on June 27, 2018.

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

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State’s share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local

property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

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

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

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

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

2018-19 State Budget. The Governor signed the fiscal year 2018-19 State Budget (the “2018-19 State Budget”) on June 27, 2018. The 2018-19 State Budget sets forth a balanced budget for fiscal year 2018-19 that projects approximately \$133.33 billion in revenues, and \$83.82 billion in non-Proposition 98 expenditures and \$54.87 billion in Proposition 98 expenditures. The 2018-19 State Budget includes a \$1.96 billion reserve in the Special Fund for Economic Uncertainties. The 2018-19 State Budget uses dedicated proceeds from Proposition 2 to pay down approximately \$1.75 billion in past budgetary borrowing and State employee pension liabilities. The 2018-19 State Budget includes total funding of \$97.2 billion (\$56.1 billion State general fund and \$41.1 billion other funds) for all kindergarten through grade 12 (“K-12”) education programs. The 2018-19 State Budget provides \$3.7 billion in new funding for the LCFF, which fully implements the school district and charter school formula two years earlier than originally scheduled, including both a 2.71% cost of living adjustment and an additional \$570 million above the cost of living adjustment as an ongoing increase to the formula. The 2018-19 State Budget also provides \$300 million one-time Proposition 98 general fund resources for the Low-Performing Students Block Grant, which will provide resources in addition to LCFF funds to local educational agencies with students who perform at the lowest levels on the State’s academic assessments and do not generate supplemental LCFF funds or State or federal special education resources.

Certain budgeted adjustments for K-12 education set forth in the 2018-19 State Budget include the following:

- Statewide System of Support. The 2018-19 State Budget includes \$57.8 million in Proposition 98 general fund resources for county offices of education to provide technical assistance to school districts, of which \$4 million will go towards geographical regional leads to build systemwide capacity to support school district improvement.
- Multi-Tiered Systems of Support (MTSS). The 2018-19 State Budget includes \$15 million one-time Proposition 98 general fund resources to expand the State’s MTSS framework to foster positive school climate in both academic and behavioral areas.
- Community Engagement Initiative. The 2018-19 State Budget includes \$13.3 million one-time Proposition 98 general fund resources for the California Collaborative for Educational Excellence and a co-lead county office of education to help school districts build capacity for community engagement in the local control and accountability plan (“LCAP”) process.
- California Collaborative for Educational Excellence. The 2018-19 State Budget includes \$11.5 million Proposition 98 general fund resources to support the California Collaborative for Educational Excellence in its role within the statewide system of support.
- Special Education Local Plan Area (SELPA) Technical Assistance. The 2018-19 State Budget includes \$10 million Proposition 98 general fund resources for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance (specific to students with exceptional needs) within the statewide system of support.
- Strong Workforce Program. The 2018-19 State Budget includes \$164 million ongoing Proposition 98 general fund resources to establish a K-12 specific component within the Strong Workforce Program designed to encourage local educational agencies to offer high-quality career technical education programs that are aligned with needed industry skills and regional workforce development efforts occurring through the existing Strong Workforce Program.

- Career Technical Education Incentive Grant Program. The 2018-19 State Budget includes \$150 million ongoing Proposition 98 general fund resources to make permanent the Career Technical Education Incentive Grant Program.
- Inclusive Early Education Expansion Program. The 2018-19 State Budget creates the Inclusive Early Education Expansion Program, providing \$167.2 million one-time Proposition 98 general fund resources through a competitive grant program to increase the availability of inclusive early education and care for children aged zero to five years old, especially in low-income areas and in areas with relatively low access to care.

The complete 2018-19 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Proposed 2019-20 State Budget. The Governor released his proposed State budget for fiscal year 2019-20 (the “Proposed 2019-20 State Budget”) on January 10, 2019. The Proposed 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20. However, the Governor cautions that there are uncertainties that must be considered as the budget is revised, including the impact of the global political and economic climate, changes to federal policy, rising costs and risk of recession. The Proposed 2019-20 State Budget estimates that total resources available in fiscal year 2018-19 totaled approximately \$149.32 billion (including a prior year balance of approximately \$12.38 billion) and total expenditures in fiscal year 2018-19 totaled approximately \$144.08 billion. The Proposed 2019-20 State Budget projects total resources available for fiscal year 2019-20 of approximately \$147.86 billion, inclusive of revenues and transfers of approximately \$142.62 billion and a prior year balance of \$5.24 billion. The Proposed 2019-20 State Budget projects total expenditures of \$144.20 billion, inclusive of non-Proposition 98 expenditures of approximately \$88.90 billion and Proposition 98 expenditures of approximately \$55.30 billion. The Proposed 2019-20 State Budget proposes to allocate approximately \$1.39 billion of the general fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and \$2.28 billion of such fund balance to the State’s Special Fund for Economic Uncertainties. In addition, the Proposed 2019-20 State Budget estimates the Rainy Day Fund will have a fund balance of \$15.30 billion.

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

- Local Control Funding Formula. The Proposed 2019-20 State Budget includes an increase of \$2 billion in Proposition 98 general fund resources for the LCFF.
- CalSTRS Pension Costs. The Proposed 2019-20 State Budget includes a \$3 billion one-time payment of non-Proposition 98 general fund resources to CalSTRS to reduce long-term liabilities for local educational agencies and community colleges, of which \$700 million will go towards buying down employer contribution rates in fiscal years 2019-20 and 2020-21. The remaining \$2.3 billion will be allocated to the employers’ long-term unfunded liability.
- Statewide System of Support. The Proposed 2019-20 State Budget includes an increase of \$20.2 million of Proposition 98 general fund resources for county offices of education to provide technical assistance to school districts, consistent with the formula adopted in the 2018-19 State Budget.
- Special Education. The Proposed 2019-20 State Budget includes \$576 million of Proposition 98 general fund resources, of which \$186 million is on a one-time basis, to support expanded special

education services and school readiness supports at local educational agencies with high percentages of both students with disabilities and unduplicated students who are low-income, youth in foster care, and English language learners.

- Access to Full-Day Kindergarten Programs. The Proposed 2019-20 State Budget includes an increase of \$750 million of one-time non-Proposition 98 general fund resources to increase participation in kindergarten programs by constructing new or retrofitting existing facilities for full-day kindergarten programs.
- Longitudinal Education Data. The Proposed 2019-20 State Budget includes an increase of \$10 million of one-time non-Proposition 98 general fund resources for the development of a longitudinal data system to improve coordination across educational data systems and track the impact of state investments on achieving educational goals. This system will host student information from early education providers, K-12 schools, higher education institutions, employers, other workforce entities, and health and human services agencies. Stakeholder meetings will be held to consider data reliability and ways to improve data quality at each education segment.
- Proposition 98 Certification. The Proposed 2019-20 State Budget proposes to revise the Proposition 98 certification process to eliminate the cost allocation schedule and prohibit the State from adjusting Proposition 98 funding levels for a prior fiscal year in order to protect local educational agencies from unanticipated revenue drops in past fiscal years.
- School District Average Daily Attendance. The Proposed 2019-20 State Budget includes a decrease of \$388 million of Proposition 98 general fund resources in 2018-19 for school districts as a result of a decrease in projected average daily attendance from the 2018-19 State Budget, and a decrease of \$187 million of Proposition 98 general fund resources in 2019-20 for school districts as a result of further projected decline in average daily attendance for 2019-20.
- Local Property Tax Adjustments. The Proposed 2019-20 State Budget includes a decrease of \$283 million of Proposition 98 general fund resources for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of \$1.25 billion of Proposition 98 general fund resources for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes
- Cost-of-Living Adjustments. The Proposed 2019-20 State Budget includes an increase of \$187 million of Proposition 98 general fund resources to support a 3.46% cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- CalWORKs Stages 2 and 3 Child Care. The Proposed 2019-20 State Budget includes a net increase of \$119.4 million of non-Proposition 98 general fund resources in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and Stage 3 child care are \$597 million and \$482.2 million, respectively.
- Full-Year Implementation of Prior Year State Preschool Slots. The Proposed 2019-20 State Budget includes an increase of \$26.8 million of Proposition 98 general fund resources to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through fiscal year 2018-19.

- County Offices of Education. The Proposed 2019-20 State Budget includes an increase of \$9 million of Proposition 98 general fund resources for county offices of education to reflect a 3.46% cost-of-living adjustment and average daily attendance changes applicable to the LCFF.
- Emergency Readiness, Response and Recovery Grant. The Proposed 2019-20 State Budget includes an increase of \$50 million of one-time non-Proposition 98 general fund resources to commence a comprehensive, statewide education campaign on disaster preparedness and safety.

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

LAO Overview of Proposed 2019-20 State Budget. The Legislative Analyst’s Office (“LAO”), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the Proposed 2019-20 State Budget entitled “The 2019-20 Budget: Overview of the Governor’s Budget” on January 14, 2019 (the “2019-20 Proposed Budget Overview”). In the 2019-20 Proposed Budget Overview, the LAO summarizes the condition of the Proposed 2019-20 State Budget in light of uncertainties such as market volatility, rising costs and risk of recession. The LAO also highlights key features of the Proposed 2019-20 State Budget, which include prioritizing debt repayments and one-time programmatic spending and the early introduction of new policy goals.

The LAO notes that the Proposed 2019-20 State Budget is in a positive position, based in large part on the availability of significant discretionary resources in the amount of \$20.6 billion. The LAO explains that this is due to the administration’s higher revenue assumptions and lower-than-expected spending in health and human services programs. The LAO anticipates that capital gains revenues will likely be lower than the Proposed 2019-20 State Budget assumes due to the recent volatility of the financial market, including the sharp decline in stock prices at the end of 2018. However, the LAO suggests that any losses in capital gains revenues would likely be off-set by lower constitutionally required spending and reserve deposits. As a result, the LAO explains that under current conditions, the net effect on discretionary resources would be less than the full revenue decline. Although the LAO maintains a positive outlook on the Proposed 2019-20 State Budget, the LAO recognizes that the current financial market and economic conditions can change significantly and affect revenues in the May Revision of the Proposed 2019-20 State Budget.

The LAO summarizes that the Proposed 2019-20 State Budget allocates \$20.6 billion in discretionary resources among a variety of priorities, including \$9.7 billion for reducing debts and liabilities on a one-time basis, \$5.1 billion for programmatic spending on a one-time basis, \$2.7 billion for ongoing spending and \$3 billion for reserves. The LAO points out that the Proposed 2019-20 State Budget uses a significant portion of discretionary resources for debt repayment and prioritizes one-time spending for programmatic expansions. The LAO finds this allocation prudent even though the Proposed 2019-20 State Budget apportions a smaller share of resources for reserves than recent budgets. The LAO explains that this approach benefits the budget in future years and in some cases reduces ongoing spending growth.

The LAO notes that the Proposed 2019-20 State Budget apportions \$2.7 billion for ongoing spending, which will reach an estimated \$3.5 billion under full implementation as costs grow over time. The LAO explains that these expenditure levels are in line with estimates of available ongoing resources. However, the LAO cautions that these costs could grow due to various uncertainties not captured in the spending proposals, such as increased costs for CalWORKS grants in case of recession and costs for disaster mitigation, response and recovery. The LAO further notes that while the Proposed 2019-20 State Budget includes mostly one-time spending for these purposes, they are more likely to be ongoing costs.

The LAO explains that the Proposed 2019-20 State Budget establishes a number of policy goals, including developing a plan for implementing universal preschool, negotiating existing state prescription drug prices and reviewing related negotiation and procurement practices, and expanding paid family leave. The LAO notes that these proposals are still in the process of development and, therefore, are not reflected in the administration's budget bottom line. The LAO finds that by proposing these policy goals at the beginning of the budget process, the Governor gives the State Legislature the opportunity to collaborate with the administration to shape these policies.

The 2019-20 Proposed Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

May Revision to the 2019-20 Proposed State Budget. The Governor released the May Revision to the proposed fiscal year 2019-20 State budget (the "2019-20 May Revision") on May 9, 2019. The 2019-20 May Revision proposes a balanced budget for fiscal year 2019-20. The 2019-20 May Revision projects an increase of \$3.2 billion in short-term general fund revenues as compared to the Proposed 2019-20 State Budget. However, most of the increased revenues are constitutionally obligated to reserves, debt repayments and schools. Therefore, the budget surplus remains relatively unchanged. The 2019-20 May Revision estimates that total resources available in fiscal year 2018-19 will be approximately \$149.47 billion (including revenues and transfers of \$138.05 billion and a prior year balance of \$11.42 billion) and total expenditures in fiscal year 2018-19 will be approximately \$143.24 billion. The 2019-20 May Revision projects total resources available for fiscal year 2019-20 of approximately \$150.06 billion, inclusive of revenues and transfers of approximately \$143.84 billion and a prior year balance of approximately \$6.22 billion. The 2019-20 May Revision projects total expenditures of approximately \$147.03 billion, inclusive of non-Proposition 98 expenditures of \$91.13 billion and Proposition 98 expenditures of \$55.90 billion. The 2019-20 May Revision proposes to allocate approximately \$1.39 billion of the State general fund's projected fund balance to the Reserve for Liquidation of Encumbrances and approximately \$1.65 billion of such fund balance to the State's special fund for economic uncertainties. In addition, the 2019-20 May Revision estimates that the State's Proposition 2 rainy day fund (the "Rainy Day Fund") will have a fund balance of approximately \$16.52 billion.

The 2019-20 May Revision assumes slow economic expansion and a balanced budget through fiscal year 2019-20, although its forecasts are limited by growing uncertainty related to the global political and economic climate, federal policies, rising costs and the duration of the current economic expansion. The 2019-20 May Revision projects that the Rainy Day Fund will reach its maximum of 10% of general fund revenues in fiscal year 2020-21. By the end of fiscal year 2022-23, the 2019-20 May Revision projects that the Rainy Day Fund balance will have a balance of \$18.7 billion.

The 2019-20 May Revision includes total funding of \$101.8 billion for all K-12 education programs, including \$58.9 billion from the general fund and \$42.9 billion from other funds.

Certain adjustments and budgetary proposals for K-12 education set forth in the 2019-20 May Revision include the following:

- **Proposition 98 Minimum Guarantee.** The 2019-20 May Revision projects increased Proposition 98 funding by \$78.4 million in fiscal year 2017-18, \$278.8 million in fiscal year 2018-19 and \$389.3 million in fiscal year 2019-20, due to increase in general fund revenues, an increase in the minimum guarantee funding level in fiscal year 2017-18 and a slightly slower decline in ADA than projected in the Proposed 2019-20 State Budget.

- Public School System Stabilization Account. For the first time, the 2019-20 May Revision projects that a deposit is required to the Public School System Stabilization Account in the amount of \$389.3 million in Proposition 98 resources.
- Special Education. The 2019-20 May Revision proposes to allocate \$696.2 million in ongoing Proposition 98 general fund resources to special education, \$119.2 million more than set forth in the Proposed 2019-20 State Budget, to increase coordination between local general education and special education programs, and for program governance and accountability for special education student outcomes.
- Retaining Well-Prepared Educators. The 2019-20 May Revision includes \$89.8 million in one-time non-Proposition 98 general fund resources for loan repayments of newly credentialed teachers to work in high-need schools. The 2019-20 May Revision also includes \$44.8 million in one-time non-Proposition 98 general fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, and \$13.9 million in ongoing federal funds for professional learning opportunities for public school administrators supporting diverse student populations in State public schools.
- Access to Computer Science Education. The 2019-20 May Revision includes \$15 million in one-time Proposition 98 general fund resources for broadband infrastructure and \$1 million in one-time non-Proposition 98 general fund resources for the State Board of Education to establish a State Computer Science Coordinator.
- CalSTRS Employer Contribution Rate. The 2019-20 May Revision includes \$150 million in one-time non-Proposition 98 general fund resources to reduce the employer contribution rate to 16.7% in fiscal year 2019-20.
- Local Control Funding Formula Adjustments. The 2019-20 May Revision proposes an increase of \$70 million in Proposition 98 general fund resources in fiscal year 2018-19 and a decrease of \$63.9 million in Proposition 98 general fund resources in fiscal year 2019-20 for school districts, charter schools and county offices of education to reflect changes in ADA and cost-of-living in fiscal year 2019-20 that affect the LCFF calculation.
- Classified School Employees Summer Assistance Program. The 2019-20 May Revision includes an increase of \$36 million in one-time Proposition 98 general fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Local Property Tax Adjustments. The 2019-20 May Revision proposes an increase of \$146.6 million of Proposition 98 general fund resources in fiscal year 2018-19 and \$142.1 million in fiscal year 2019-20 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in these years.
- Wildfire-Related Cost Adjustments. The 2019-20 May Revision proposes an increase of \$2 million in one-time Proposition 98 general fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires in 2017 and 2018. The 2019-20 May Revision also proposes an increase of \$727,000 in one-time Proposition 98 general fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses.

- Categorical Program Cost-of-Living Adjustments. The 2019-20 May Revision proposes to decrease the Proposition 98 general fund by \$7.4 million for selected categorical programs during fiscal year 2019-20. Such decrease reflects a change in the cost-of-living set forth in the Proposed 2019-20 State Budget of 3.46% to 3.26% in the 2019-20 May Revision.
- Categorical Program Growth. The 2019-20 May Revision proposes to increase the Proposition 98 general fund by \$7.6 million for selected categorical programs, based on updated estimates of ADA growth.

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

Changes in State Budget. The final fiscal year 2019-20 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor’s budget proposal. Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2019-20 State budget from the Proposed 2019-20 State Budget or the 2019-20 May Revision. Additionally, the District cannot predict the impact that the final fiscal year 2019-20 State budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2019-20 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

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

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

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

on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

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

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

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

- A Base Grant for each local education agency (“LEA”). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2018-19, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,235 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,571 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,796 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,269 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and

Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes the higher costs-of-living adjustment of 3.70% authorized by the 2018-19 State Budget, which is known as “super COLA.”

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a LEA’s Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.
- An Economic Recovery Target (the “ERT”) that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation, LEAs now receive the greater of the Base Grant or the ERT.

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

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

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

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

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Attendance and LCFF. The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”), and targeted Base Grant per unit of A.D.A. for fiscal years 2013-14 through 2018-19, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education students.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Average Daily Attendance, Enrollment and Targeted Base Grant
Fiscal Years 2013-14 through 2018-19**

Fiscal Year		A.D.A./Base Grant				Enrollment ⁽⁸⁾		
		K-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2013-14	A.D.A. ⁽¹⁾ :	549.38	333.38	205.42	430.49	1,518.67	1,596	72.41%
	Targeted Base Grant ⁽²⁾ :	\$7,675	\$7,056	\$7,266	\$8,638	--	--	--
2014-15	A.D.A. ⁽¹⁾ :	536.72	331.09	203.52	406.73	1,478.06	1,533	71.84%
	Targeted Base Grant ⁽²⁾⁽³⁾ :	\$7,740	\$7,116	\$7,328	\$8,712	--	--	--
2015-16	A.D.A. ⁽¹⁾ :	484.33	385.84	216.30	380.99	1,467.46	1,564	72.88%
	Targeted Base Grant ⁽²⁾⁽⁴⁾ :	\$7,820	\$7,189	\$7,403	\$8,801	--	--	--
2016-17	A.D.A. ⁽¹⁾ :	512.21	385.53	216.36	360.62	1,474.72	1,573	73.29%
	Targeted Base Grant ⁽²⁾⁽⁵⁾ :	\$7,820	\$7,189	\$7,403	\$8,801	--	--	--
2017-18	A.D.A. ⁽¹⁾ :	528.16	389.49	252.27	385.93	1,555.85	1,664	73.55%
	Targeted Base Grant ⁽²⁾⁽⁶⁾ :	\$7,941	\$7,301	\$7,518	\$8,939	--	--	--
2018-19	A.D.A. ⁽¹⁾ :	593.16	367.89	257.49	406.40	1,624.94	1,701	71.12%
	Targeted Base Grant ⁽²⁾⁽⁷⁾ :	\$8,235	\$7,571	\$7,796	\$9,269	--	--	--

⁽¹⁾ A.D.A. for the second period of attendance, typically in mid-April of each school year.

⁽²⁾ Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF is now fully implemented as of the current fiscal year 2018-19, two years ahead of its anticipated implementation.

⁽³⁾ Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

⁽⁴⁾ Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

⁽⁵⁾ Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

⁽⁶⁾ Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

⁽⁷⁾ Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts.

This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

⁽⁸⁾ Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2017-18 school year. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI Students was expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students was based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Mountain Empire Unified School District.

The District received approximately \$15.9 million in aggregate revenues reported under LCFF sources in fiscal year 2017-18 and has projected to receive approximately \$17.26 million in aggregate revenues under the LCFF in fiscal year 2018-19 (or approximately 73.49% of its general fund revenues in

fiscal year 2018-19). Such amount includes supplemental grants and concentration grants, projected to be approximately \$1,899,951 and \$1,076,603, respectively, in fiscal year 2018-19.

Local Sources of Education Funding

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

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

Local property tax revenues account for approximately 16.68% of the District's aggregate revenues reported under LCFF sources and are projected to be approximately \$2.88 million, or 12.26% of total general fund revenues in fiscal year 2018-19.

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

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

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

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

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and

more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 9.20% (or approximately \$2.16 million) of the District's general fund projected revenues for fiscal year 2018-19.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 6.23% (or approximately \$1.46 million) of the District's general fund projected revenues for fiscal year 2018-19.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is projected at approximately \$348,723 for fiscal year 2018-19.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 11.08% (or approximately \$2.60 million) of the District's general fund projected revenues for fiscal year 2018-19.

Charter Schools

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

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

from the school district and would generally be included in the school district's financial reports and audited financial statements.

There are seven independent charter schools within the District, which are not operated by the District or included in the District's audited financial statements. Such charter schools include Compass Charter Schools of San Diego, County Collaborative Charter School, Elite Academic Academy – Mountain Empire, JCS – Pine Valley, San Diego Neighborhood Homeschools, and San Diego Virtual Academy. College Preparatory Middle – East County serves grades five through eight, while the other charter schools all serve grades kindergarten through twelve. The combined enrollment at such charter schools was 1,583 students in fiscal year 2017-18 and is projected to be approximately 1,772 students in fiscal year 2018-19.

The District did not renew the charter for San Diego Neighborhood Homeschools for fiscal year 2019-20; as a result, such charter school is expected to close at the end of fiscal year 2018-19.

The District can make no representation as to whether enrollment at such charter schools may increase at the expense of District enrollment in future years, whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's A.D.A. or finances in future years.

Significant Accounting Policies and Audited Financial Reports

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

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's independent auditor, Wilkinson Hadley King & Co. LLP, Certified Public Accountants and Advisors, El Cajon, California, for fiscal years 2013-14 through 2017-18.

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

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

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
REVENUES					
LCFF Sources:					
State Apportionment or State Aid Education Protection Account	\$7,355,766	\$7,931,108	\$8,665,359	\$9,005,499	\$10,506,633
Funds	1,720,559	2,109,897	1,964,572	1,950,006	2,158,249
Local Sources	2,206,206	2,172,710	3,261,182	3,778,153	3,221,306
Federal Revenue	2,276,909	2,507,626	2,410,335	2,157,370	2,232,945
Other State Revenue	1,033,649	1,106,038	2,172,648	1,838,700	1,665,159
Other Local Revenue	3,261,985	3,867,294	2,772,507	2,862,023	2,872,968
Total Revenues	17,855,074	19,694,673	21,246,603	21,591,751	22,657,260
EXPENDITURES					
Current:					
Instruction	9,874,038	11,410,619	12,284,956	12,560,414	13,074,623
Instructional-Related Services	1,856,467	2,095,714	2,624,475	2,452,324	2,353,761
Pupil Services	1,908,046	2,179,001	2,607,078	1,864,918	2,548,640
Ancillary Services	379,636	404,324	385,779	250,347	365,697
General Administration	1,514,355	1,737,090	2,260,880	1,437,426	1,521,065
Plant Services	1,712,024	1,680,960	2,116,032	2,712,284	2,518,255
Other Outgo	674,985	752,582	-	50,401	54,108
Capital Outlay	-	-	-	662,551	314,370
Debt Service:					
Principal	64,948	100,359	32,142	70,393	112,669
Interest	79,606	113,345	37,789	69,470	97,125
Total Expenditures	18,064,105	20,473,994	22,349,131	22,130,528	22,960,313
Excess (Deficiency) of Revenues Over (Under) Expenditures	(209,031)	(779,321)	(1,102,528)	(538,777)	(303,053)
Other Financing Sources (Uses):					
Transfers In	-	-	-	97,894	-
Transfers Out ⁽¹⁾	(11,432)	(105)	(543,162)	(178,210)	(183,908)
Total Other Financing Sources (Uses)	(11,432)	(105)	(543,162)	(80,316)	(183,908)
Net Change in Fund Balance	(220,463)	(779,426)	(1,645,690)	(619,093)	(486,961)
Fund Balance, July 1	5,063,645	4,843,182	4,063,756	2,418,066	1,798,973
Fund Balance, June 30⁽²⁾	\$4,843,182	\$4,063,756	\$2,418,066	\$1,798,973	\$1,312,012

⁽¹⁾ Reflects transfers to the Cafeteria Fund.

⁽²⁾ The District has been spending down its ending fund balance over the past five years due in large part to increasing expenses for STRS, PERS, and health & welfare benefits, facility projects that could not be postponed due to the condition of District facilities, and the loss of funding due to the reorganization of a charter school in fiscal year 2016-17. The District now has a plan in place to reduce its deficit spending that includes certain budget reductions and the elimination of five certificated positions and one classified position in fiscal year 2019-20 and the further elimination of three certificated positions and one classified position in fiscal year 2020-21.

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

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

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
ASSETS					
Cash in County Treasury	\$2,194,670	\$3,826,542	\$2,207,963	\$1,634,689	\$657,013
Cash in Revolving Fund	7,500	7,500	7,500	7,500	7,500
Cash with a Fiscal Agent/Trustee	5,000	5,000	5,000	5,000	5,000
Accounts Receivable	3,344,219	1,831,534	851,312	1,102,039	1,584,512
Due from Other Funds	49,052	111,812	98,445	170,961	212,000
Total Assets	5,600,441	5,782,388	3,170,220	2,920,189	2,466,025
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	\$567,880	\$640,044	\$400,070	\$467,158	\$329,976
Due to Grantor Governments	-	-	159,402	-	-
Due to Other Funds	21,450	1,918	18,212	418,231	653,064
Unearned Revenue	167,929	1,076,670	174,470	235,827	170,973
Total Liabilities	757,259	1,718,632	752,154	1,121,216	1,154,013
Fund Balance:					
Nonspendable Fund Balances:					
Revolving Cash	7,500	7,500	7,500	7,500	7,500
Restricted Fund Balances	816,805	361,479	575,455	494,812	290,147
Committed Fund Balances	394,292	-	-	-	-
Assigned Fund Balances	2,540,739	2,534,431	490,551	207,409	175,899
Unassigned:					
Reserve for Economic Uncertainty	1,083,846	1,160,346	1,344,560	1,089,252	838,466
Total Fund Balance⁽¹⁾	4,843,182	4,063,756	2,418,066	1,798,973	1,312,012
Total Liabilities and Fund Balances⁽²⁾	\$5,600,441	\$5,782,388	\$3,170,220	\$2,920,189	\$2,466,025

⁽¹⁾ The District has been spending down its ending fund balance over the past five years due in large part to increasing expenses for STRS, PERS, and health & welfare benefits, facility projects that could not be postponed due to the condition of District facilities, and the loss of funding due to the reorganization of a charter school in fiscal year 2016-17. The District now has a plan in place to reduce its deficit spending that includes certain budget reductions and the elimination of five certificated positions and one classified position in fiscal year 2019-20 and the further elimination of three certificated positions and one classified position in fiscal year 2020-21.

⁽²⁾ The increase in liabilities is due to temporarily borrowing from the Capital Facilities Fund to the General Fund for cash flow purposes. The District borrowed from the Capital Facilities Fund in fiscal years 2016-17 and 2017-18, but the funds were not repaid until the fiscal year following each borrowing.

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

District Budget Process and County Review

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

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

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

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

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

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

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

Any school district that receives a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the school district, unless the county superintendent determines that the school district’s repayment of indebtedness is probable. In the last five years, the District has received qualified certifications for the first and second interim reports for fiscal year 2018-19.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* property taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president’s designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district’s return to fiscal solvency.

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

whether the emergency apportionment will take the form of a lease financing or an emergency apportionment from the State General Fund will be based upon the availability of funds within the State General Fund.

The following table sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2018-19, unaudited actuals for fiscal years 2016-17 and 2017-18, and second interim report for fiscal year 2018-19.

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MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
General Fund Budgets for Fiscal Years 2016-17 through 2018-19,
Unaudited Actuals for Fiscal Years 2016-17 and 2017-18
and Second Interim Report for Fiscal Year 2018-19

	2016-17 Original Adopted Budget	2016-17 Unaudited Actuals ⁽³⁾	2017-18 Original Adopted Budget	2017-18 Unaudited Actuals ⁽³⁾	2018-19 Original Adopted Budget	2018-19 Second Interim Report ⁽⁴⁾
REVENUES						
LCFF Sources	\$14,594,048.00	\$14,733,657.77	\$15,000,339.00	\$15,886,190.00	\$16,698,860.00	\$17,257,124.00
Federal Revenue	1,939,573.00	2,157,369.72	2,021,602.00	2,232,945.14	2,211,857.00	2,159,805.00
Other State Revenue	1,508,439.00	1,518,181.90	1,076,402.00	1,665,158.71	1,558,125.00	1,463,426.00
Other Local Revenue	2,954,552.00	2,860,040.21	2,904,542.00	2,870,006.35	2,419,726.00	2,602,511.29
TOTAL REVENUES	<u>20,996,612.00</u>	<u>21,269,248.60</u>	<u>21,002,885.00</u>	<u>22,654,300.20</u>	<u>22,888,568.00</u>	<u>23,482,866.29</u>
EXPENDITURES						
Certificated Salaries	7,456,859.00	7,538,328.73	7,246,311.00	7,929,745.50	8,026,366.00	8,263,643.00
Classified Salaries	4,114,631.00	3,959,618.23	4,060,153.00	4,160,704.71	4,487,398.00	4,382,007.00
Employee Benefits	4,819,633.00	4,723,684.65	5,022,082.00	5,322,401.61	5,606,983.00	5,622,979.00
Books and Supplies	1,286,489.00	1,382,178.63	1,361,078.00	1,596,182.75	1,112,360.00	1,361,885.64
Services, Other Operating Expenses	3,119,898.00	3,391,968.03	3,048,142.00	3,428,393.19	3,289,146.00	3,387,373.00
Capital Outlay	520,653.00	662,550.79	227,104.00	314,371.12	109,185.00	215,780.00
Other Outgo (excluding Direct Support/Indirect Costs)	153,353.00	139,862.93	139,858.00	209,794.38	139,863.00	151,638.00
Other Outgo - Transfers of Indirect Costs	(9,071.00)	(7,228.92)	(1,328.00)	(1,280.00)	(1,335.00)	(1,335.00)
TOTAL EXPENDITURES	<u>21,462,445.00</u>	<u>21,790,963.07</u>	<u>21,103,400.00</u>	<u>22,960,313.26</u>	<u>22,769,966.00</u>	<u>23,383,970.64</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(465,833.00)	(521,713.47)	(100,515.00)	(306,013.06)	118,602.00	98,895.65
OTHER FINANCING SOURCES (USES)						
Inter-fund Transfers In	750.00	95,591.31	750.00	-	750.00	205,168.00
Inter-fund Transfers Out ⁽¹⁾	(129,382.00)	(178,209.73)	(143,710.00)	(183,907.81)	(177,632.00)	(207,998.00)
TOTAL, OTHER FINANCING SOURCES (USES)	(128,632.00)	(82,618.42)	(142,960.00)	(183,907.81)	(176,882.00)	(2,830.00)
NET INCREASE (DECREASE) IN FUND BALANCE	(594,465.00)	(604,331.89)	(243,475.00)	(489,920.87)	(58,280.00)	96,065.65
BEGINNING BALANCE, as of July 1	1,759,662.39	2,220,139.31	1,359,002.31	1,599,063.54	745,188.80	1,109,142.67
Audit Adjustments⁽²⁾ As of July 1 – Audited	-	-	-	-	-	(399,809.73)
Adjusted Beginning Balance	1,759,662.39	2,220,139.31	1,359,002.31	1,599,063.54	745,188.80	709,332.94
Adjusted Beginning Balance	1,759,662.39	2,220,139.31	1,359,002.31	1,599,063.54	745,188.80	709,332.94
ENDING BALANCE	<u>\$ 1,165,197.39</u>	<u>\$ 1,615,807.42</u>	<u>\$ 1,115,527.31</u>	<u>\$ 1,109,142.67</u>	<u>\$ 686,908.80</u>	<u>\$ 805,398.59</u>
Unrestricted Ending Balance	\$798,021.33	\$1,123,488.32	\$920,315.18	\$818,997.42	\$664,265.40	\$661,624.03
Restricted Ending Balance	\$367,176.06	\$492,319.10	\$195,212.13	\$290,145.25	\$22,643.40	\$143,774.56

⁽¹⁾ Reflects transfers to the Cafeteria Fund.

⁽²⁾ Adjustment was the result of an accounting error at the California Department of Education, which resulted in overfunding a charter school operating in the District that was then reorganized, and the District received the funds to pass through to the chart as its portion of in-lieu taxes. The District had to subsequently deduct the excess funds it received to pass through to the charter school.

⁽³⁾ The District's unaudited actuals differ from the District's audited statement of revenues, expenditures and charges presented herein because the District's audited statement of revenues, expenditures and charges includes the amounts in the District's special reserve fund for other than capital outlay (fund 17) and the special reserve fund for postemployment benefits (fund 20) with the general fund in accordance with GASB Statement No. 54. The District's unaudited actuals reflect the general fund amounts only.

⁽⁴⁾ Figures are projections.

Mountain Empire Unified School District original adopted budgets for fiscal years 2016-17 through 2018-19; unaudited actuals for fiscal years 2016-17 and 2017-18; and second interim report for fiscal year 2018-19.

District Debt Structure

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

Long-Term Debt ⁽¹⁾	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
2010 Refunding Bonds payable ⁽²⁾	\$1,710,000	\$ -	\$195,000	\$1,515,000	\$210,000
2010 Refunding Bonds premium payable	77,243	-	12,874	64,369	12,874
Energy loan payable	1,270,212	-	112,669	1,157,543	78,080
Total OPEB obligation	3,708,962	499,561	170,957	4,037,566	-
Net pension obligation	19,001,051	443,754	-	19,444,805	-
Compensated absences payable	74,163	5,741	-	79,904	79,904
Total	\$25,841,631	\$949,056	\$491,500	\$26,299,187	\$380,858

⁽¹⁾ Does not reflect the vehicle leases under the master equity lease agreement, dated January 8, 2019, between the District and Enterprise FM Trust. See “- Vehicle Leases” below.

⁽²⁾ Does not reflect the issuance of the Series 2019 Bonds.

Source: Mountain Empire Unified School District Audited Financial Report for fiscal year 2017-18.

General Obligation Bonds. In addition to the Series 2019 Bonds, the District has one series of general obligation bonds outstanding under the 1998 Authorization that is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series 2019 Bonds.

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

Energy Loan. The annual requirements to amortize the District’s energy loan outstanding at June 30, 2019 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$78,080	\$61,783	\$139,863
2020	82,234	57,629	139,863
2021	86,607	53,256	139,863
2022	91,214	48,649	139,863
2023	96,066	43,797	139,863
2024-2028	562,630	136,685	699,315
2029-2033	160,712	10,550	171,262
Totals	\$1,157,543	\$412,349	\$1,569,892

Vehicle Leases. Pursuant to a master equity lease agreement, dated January 8, 2019, between the District and Enterprise FM Trust, the District has leased two vehicles and expects to lease a total of fifteen vehicles. Annual payments for all fifteen vehicles are projected at approximately \$105,207. Each vehicle lease is expected to have a lease term of 60 months.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with California State Teacher’s Retirement System (“CalSTRS”) and the State Public Employees’ Retirement System (“CalPERS”) (see “- Retirement Benefits” below), the District provides a defined benefit plan, the Mountain Empire Unified School District Retiree Healthcare Plan (the “Plan”) which provides post-employment benefits for retirees that meet eligibility requirements until age 65. Retirees in the Plan are eligible for the same medical plans as active employees of the District. The Plan is a single-employer defined benefit plan administered by the District. The District’s Board of Education has the authority to establish and amend the benefit terms and financing requirements of the Plan. No assets are accumulated in an irrevocable trust established pursuant to Statement Number 75 (defined below).

Certificated Employees (Including Management). The District provides retiree medical (including prescription drug benefits) to eligible retirees to Medicare eligibility age (currently age 65) or a period of 10 years, if earlier. Eligibility for retiree medical benefits requires retirement under CalSTRS/CalPERS on or after age 55 with at least 15 years of District eligible full-time service. The District's contribution is negotiated regularly and is currently based on the medical plan elected payable entity. Retirees can elect dependent medical coverage on a self-pay basis.

Classified Employees (Including Management). The District provides retiree medical (including prescription drugs), vision and dental benefits to eligible retirees to Medicare eligibility age (currently age 65) or a period of seven years, if earlier. Eligibility for retiree health benefits require retirement under CalSTRS/CalPERS on or after age 55 (but prior to the attainment of age 64) with at least 10 years of District eligible service. The District's contribution is negotiated regularly and is currently 100% of medical, vision and dental retiree only coverage for the Kaiser HMO. Retirees are required to pay a contribution for United Healthcare HMO retiree only coverage. Retirees can elect dependent coverage on a self-pay basis. Classified employees may also opt-out of retiree health benefits at retirement for a one-time payment equal to 20% of annual salary at retirement. For a description of the District's program, see Note O to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

In June 2015, the Governmental Accounting Standards Board ("GASB") issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("Statement Number 75"). Other post-employment benefits (meaning other than pension benefits) ("OPEB") generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The District has implemented Statement No. 75 beginning with its audited financial statements for fiscal year 2017-18. As a result of Statement No. 75, the District's adjustments to its beginning net position on the government wide financial statements resulted in a total adjustment of negative \$1,968,171 such that the restated beginning net position for fiscal year 2018-19 is negative \$3,933,057.

Nyhart Actuary & Employee Benefits has prepared an actuarial valuation (the "Actuarial Valuation") covering the District's retiree health benefits and reports that, as of December 31, 2017 valuation date, the District had 14 inactive employees or their beneficiaries currently receiving benefit payments and 277 active employees that are members of the Plan, with a total OPEB liability of \$4,230,303. For fiscal year 2017-18, the District contributed \$170,957 in benefit payments to the Plan. The Actuarial Valuation assumes, among other things, 3.0% salary increases, 2.75% inflation rate and a 3.80% discount rate. For more information about the District's annual required contribution for fiscal year 2017-18 and the District's net OPEB obligation and prefunding of benefits at June 30, 2018, see Note O to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Tax and Revenue Anticipation Notes. The most recent fiscal year in which the District issued tax and revenue anticipation notes (“TRANS”) was 2017-18. In fiscal year 2018-19, the District borrowed \$2,000,000 directly from the County to supplement its cash flow, which was repaid in December 2018. The District expects that it will need to borrow funds directly from the County again in fiscal year 2019-20 to supplement the District’s cash flow. The District, however, does not expect to issue TRANS to supplement the District’s cash flow in fiscal year 2019-20. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

Employment

As of March 2019, the District employed 111.9 full-time equivalent (“FTE”) certificated employees and 128.5 full-time equivalent classified employees. For fiscal year 2017-18, the total certificated and classified payrolls for all funds were approximately \$7.9 million and \$4.2 million, respectively, and are projected to be approximately \$8.26 million and \$4.38 million, respectively, in fiscal year 2018-19. These employees, except management employees, are represented by the bargaining units as noted below.

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
The Mountain Empire Teachers Association (“META”)	112	June 30, 2018 ⁽¹⁾
California School Employees Association–Ch. 441 (“CSEA”)	150	June 30, 2017 ⁽¹⁾

⁽¹⁾ The District is currently in negotiations with META and CSEA for fiscal year 2018-19, which the District expects to conclude by June 30, 2019. The District does not anticipate that such negotiations will result in a salary increase for fiscal year 2018-19. Until an agreement on the new contract terms is reached, the District and META and CSEA are operating under the terms of the prior contracts.

Source: Mountain Empire Unified School District.

Retirement Benefits

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

CalSTRS. Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members

hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State’s total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

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

As of June 30, 2017, an actuarial valuation (the “2017 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.3 billion, an increase of approximately \$10.6 million from the June 30, 2016 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 62.6%, 63.7%, and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2017 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” a 7.00% investment return assumption consistent with the State Teachers’ Retirement Board’s decision on February 1, 2017, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2017 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See “–Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

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

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

Source: Assembly Bill 1469.

The following table sets forth the District’s employer contributions to CalSTRS as well as the State’s required non-employer contribution for fiscal years 2014-15 through 2017-18 and the projected contributions for fiscal year 2018-19.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Contributions to CalSTRS for Fiscal Years 2014-15 through 2018-19

Fiscal Year	District’s Contribution	State’s On-Behalf Contribution
2014-15	\$475,359	\$290,528
2015-16	806,498	519,388
2016-17	831,344	779,092
2017-18	914,516	543,076
2018-19 ⁽¹⁾	954,720	566,951

⁽¹⁾ Second interim report for fiscal year 2018-19.
Source: Mountain Empire Unified School District.

The District’s total employer contributions to CalSTRS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

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

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

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

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

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a 15-year period with experience gains and losses spread over a rolling 30-year period. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent

using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the “2017 CalPERS Schools Pool Actuarial Valuation”). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

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

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

The following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 and the projected contribution for fiscal year 2018-19.

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
(San Diego County, California)
Contributions to CalPERS for Fiscal Years 2014-15 through 2018-19**

Fiscal Year	Contribution
2014-15	\$411,450
2015-16	439,616
2016-17	464,029
2017-18	502,832
2018-19 ⁽¹⁾	773,400

⁽¹⁾ Second interim report for fiscal year 2018-19.
Source: Mountain Empire Unified School District

The District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see “–Governor’s Pension Reform” below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

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

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

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 11 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

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

Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures

The District participates in one joint venture under a joint powers agreement (“JPA”) for insurance coverage as follows:

San Diego Schools Risk Management (SDCSRM). SDCSRM arranges for and provides various types of insurances for its member districts as requested.

The relationship between the District and the JPA is such that the JPA is not a component unit of the District for its financial reporting purposes. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district within the JPA pays a premium commensurate with the level of coverage requested and shares of surpluses and deficits proportionate to their participation in the JPA. See Note M to the District’s audited financial statements attached hereto as APPENDIX B— “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018” for more information.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

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

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

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

recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

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

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

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

Article XIII B of the California Constitution

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

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D (“Article XIII C” and “Article XIII D,” respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further

provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

Statutory Limitations

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

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

Proposition 98 and Proposition 111

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

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

the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

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

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

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

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

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

required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

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

Proposition 30 and Proposition 55

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

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

Applications of Constitutional and Statutory Provisions

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

Proposition 2

General. Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of

reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

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

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

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

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

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative

process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

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APPENDIX B

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

**MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
PINE VALLEY, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2018

Introductory Section

Mountain Empire Unified School District
 Audit Report
 For The Year Ended June 30, 2018

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Financial Section



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Kevin A. Sproul, CPA

Independent Auditor's Report

To the Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

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 Mountain Empire Unified School District ("the District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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

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Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2018, Mountain Empire Unified School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of changes in the District's total OPEB liability and related ratios identified as Required Supplementary Information in the table of contents 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 Mountain Empire Unified School District's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 and is also not a required part of the basic financial statements.

The combining financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018 on our consideration of Mountain Empire Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountain Empire Unified School District's internal control over financial reporting and compliance.

Wilkinson Hadley King + Co LLP

El Cajon, California
December 17, 2018

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

The discussion and analysis of Mountain Empire Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report, the District's financial statements and notes to the basic financial statements.

The Management's Discussion and Analysis (MD & A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD & A.

FINANCIAL HIGHLIGHTS

- The increase in Local Control Funding Formula (LCFF) sources from 2016-2017 to 2017-2018 was \$1.7 million. The increase is due to the State of California funding the remaining LCFF gap because of actual revenues outpacing all forecasts.
- The general fund expenditures increased by \$1.1 million. The largest portion of this increase was in certificated and classified salaries.
- General Fund expenditures and other uses exceeded revenues and other sources by \$490 thousand.

Overview of the Financial Statements

This annual report consists of the following parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information supplementary information and findings and recommendations. These statements are organized so the reader can understand the Mountain Empire Unified School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Basic Financial Statements

The first two statements are district-wide financial statements, the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's more significant funds with all other non-major funds presented in total in one column.

The financial statements also include notes that explain some of the supplementary information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. A comparison of the District's general fund budget is included.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using methods similar to those used by private-sector companies. The Statement of Net Position includes all the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes in account all the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2017-2018?"

These two statements report the District's net position and changes in those assets. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many non-financial factors, such as the quality of education provided to assess the overall health of the District.

- Increases or decreases in the net position of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

Governmental Funds

Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Capital Facilities Fund and the Cafeteria Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They 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 operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Fiduciary Funds

The District is the trustee, or fiduciary, for the student activities funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary 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.

FINANCIAL ANALYSIS OF THE GOVERNMENT WIDE STATEMENTS

The School District as a Whole

The District's net position was negative \$4.8 million at June 30, 2018 and was largely due to the continuing recognition of the Net Pension liability. Of this amount, unrestricted assets were negative 23.8 million. A Comparative analysis of government-wide data is presented in Table 1.

The District's net position decreased \$870 thousand this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 79% of total expenses. The administrative activities of the District accounted for just 7% of total costs. See Figure 2 for a graph showing current year expenses.

(Table 1)
Comparative Statement of Net Position

	Governmental Activities	
	June 30, 2018	Restated June 30, 2017
Assets		
Cash	\$ 1,102,693	\$ 2,267,139
Accounts receivable	1,736,992	1,257,104
Stores inventory	32,316	37,758
Capital assets	18,810,923	19,559,881
Total Assets	<u>\$ 21,682,924</u>	<u>\$ 23,121,882</u>
Deferred Outflows of Resources		
Deferred outflows of resources - pensions	<u>\$ 6,487,087</u>	<u>\$ 3,397,693</u>
Liabilities		
Accounts payable and other current liabilities	412,211	536,616
Unearned revenue	176,855	235,826
Long-term liabilities	26,299,188	25,841,631
Total liabilities	<u>26,888,254</u>	<u>26,614,073</u>
Deferred Inflows of Resources		
Deferred inflows of resources - pensions	<u>\$ 6,085,071</u>	<u>\$ 3,657,027</u>
Net Assets		
Net investment in capital assets	16,074,010	16,502,246
Restricted	3,001,685	1,468,515
Unrestricted	(23,879,009)	(21,722,286)
Total net position	<u>\$ (4,803,314)</u>	<u>\$ (3,751,525)</u>

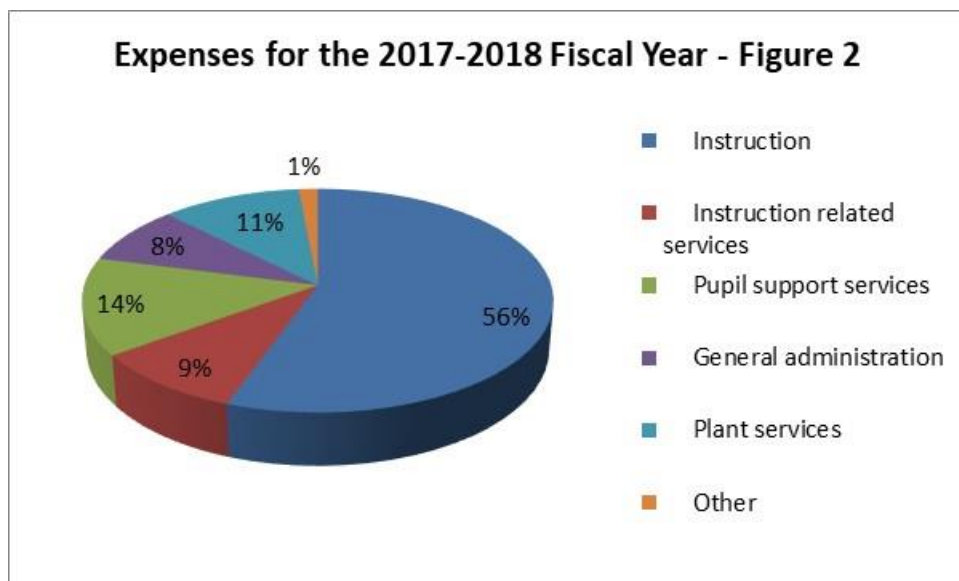
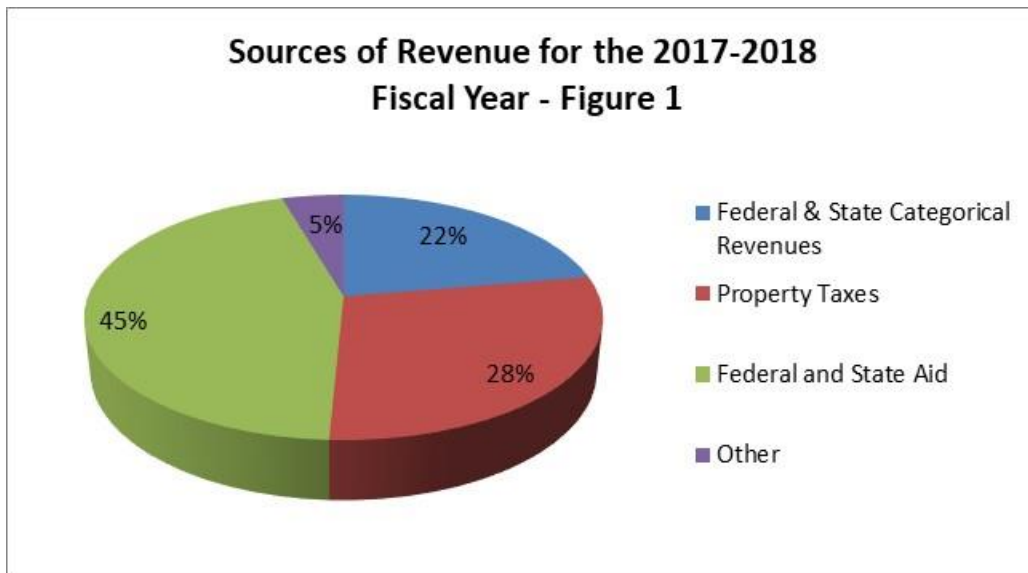
(Table 2)
Comparative Statement of Change in Net Position

	Governmental Activities	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues		
Program revenues	\$ 5,220,709	\$ 5,607,192
General revenues		
Taxes levied for general purposes	6,280,170	6,107,738
Taxes levied for debt service	266,472	264,020
Interagency revenues	90,583	94,934
Federal and state aid not restricted to specific purposes	10,446,646	9,508,214
Interest and investment earnings	63,279	63,173
Miscellaneous	997,797	9,692,760
Total Revenues	<u>\$ 23,365,656</u>	<u>\$ 31,338,031</u>
Expenses		
Instruction	13,451,882	13,996,962
Instruction related services	2,294,000	2,697,373
Pupil support services	3,411,237	2,863,024
General administration	2,053,906	1,675,991
Plant services	2,666,084	3,448,520
Other	358,804	453,040
Total Expenses	<u>24,235,913</u>	<u>25,134,910</u>
Increase (Decrease) in net position	<u>\$ (870,257)</u>	<u>\$ 6,203,121</u>

GOVERNMENTAL ACTIVITIES

As reported in the Statement of Activities, the cost of all of the District's governmental activities this year was \$24.2 million. The amount that our local taxpayers financed for these activities through property taxes was \$6.3 million. Federal and State aid not restricted to specific purposes totaled \$10.4 million. Operating grants and contributions revenue \$5.2 million.

FINANCIAL ANALYSIS OF THE FUND STATEMENTS



The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$2.3 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the State budget
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.
- An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity

The final revised budget for the General Fund reflected a net decrease to the ending balance of \$854 thousand.

The State recommends available reserves of 3% of District expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has a broad range of capital assets, including school buildings, administrative buildings, site improvements, vehicles and equipment. Table 3 demonstrates the Schedule of Capital Assets net of depreciation.

(Table 3)
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Net \$ Change</u>	<u>Net % Change</u>
Land	\$ 729,570	\$ 729,570	\$ 0	0.0%
Site Improvements	2,064,739	2,279,037	(214,298)	-9.4%
Buildings	13,766,197	14,375,295	(609,098)	-4.2%
Equipment	<u>2,250,417</u>	<u>2,175,979</u>	<u>74,438</u>	<u>3.4%</u>
Total	<u>\$ 18,810,923</u>	<u>\$ 19,559,881</u>	<u>\$ (748,958)</u>	<u>-10.2%</u>

Long-Term Obligations

At June 30, 2018 the District had \$26.3 million in long-term obligations outstanding.

(Table 4)
Comparative Schedule of Outstanding Debt
June 30, 2018 and 2017

	<u>2018</u>	<u>Restated 2017</u>
General Obligation Bonds	\$ 1,515,000	\$ 1,710,000
Accreted Interest	64,369	77,243
Capital Lease Obligation	1,157,543	1,270,212
Net OPEB liability	4,037,566	3,708,962
Net Pension liability	19,444,805	19,001,051
Compensated Absences	<u>79,904</u>	<u>74,163</u>
Total	<u>\$ 26,299,187</u>	<u>\$ 25,841,631</u>

FACTORS BEARING ON THE DISTRICT

The State's economic downturns and surpluses impact the District's future dramatically. The financial well-being of the District is tied in large measure to the state funding formula which is currently not funding district at 100%.

The latest enrollment projections indicate a downward trend for the next two (2) school years. Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California. While ADA growth is not budgeted until realized in the fall, future growth potential is there, but attendance remains the focal point of every budget report.

Predicting the future requires management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District currently maximizes restricted funds prior to utilizing unrestricted revenues in the budget development process. In addition, personnel practices will evidence early and effective intervention in identifying appropriate personnel actions that need to occur early in future school years experiencing State economic fallout. The District has an excellent track record in meeting this challenge in what has proven to be a long cycle of lean years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Gary Hobelman, Assistant Superintendent of Business, 3291 Buckman Springs Road , Pine Valley CA 91962. 619-473-9022.

Basic Financial Statements

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2018

	Governmental Activities
ASSETS:	
Cash	\$ 1,102,693
Receivables	1,736,992
Stores	32,316
Capital Assets:	
Land	729,570
Land Improvements	3,730,357
Buildings	19,610,349
Equipment	5,769,567
Less Accumulated Depreciation	(11,028,920)
Total Assets	<u>21,682,924</u>
DEFERRED OUTFLOWS OF RESOURCES	6,487,087
LIABILITIES:	
Accounts Payable and Other Current Liabilities	412,211
Unearned Revenue	176,855
Long-Term Liabilities:	
Due Within One Year	380,858
Due in More Than One Year	25,918,330
Total Liabilities	<u>26,888,254</u>
DEFERRED INFLOWS OF RESOURCES	6,085,071
NET POSITION:	
Invested in Capital Assets, Net of Related Debt	16,074,010
Restricted for:	
Educational Programs	750,000
Debt Service	1,157,543
Other Purposes (expendable)	290,145
Other Purposes (nonexpendable)	803,997
Unrestricted	(23,879,009)
Total Net Position	<u>\$ (4,803,314)</u>

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental Activities:					Governmental Activities
Instruction	\$ 13,451,882	\$ 441,406	\$ 2,777,136	\$ -	\$ (10,233,340)
Instruction-Related Services:					
Instructional Supervision and Administration	592,618	13,814	260,253	-	(318,551)
Instructional Library, Media and Technology	5,959	-	-	-	(5,959)
School Site Administration	1,695,423	2,532	169,572	-	(1,523,319)
Pupil Services:					
Home-to-School Transportation	1,428,949	-	13,601	-	(1,415,348)
Food Services	909,970	75,936	624,083	-	(209,951)
All Other Pupil Services	1,072,318	1,965	588,593	-	(481,760)
General Administration:					
Centralized Data Processing	35,182	-	-	-	(35,182)
All Other General Administration	2,018,724	64,489	62,708	-	(1,891,527)
Plant Services	2,666,084	522	120,886	-	(2,544,676)
Ancillary Services	354,158	-	3,212	-	(350,946)
Interest on Long-Term Debt	(51,871)	-	-	-	51,871
Other Outgo	54,108	1	-	-	(54,107)
Depreciation (Unallocated)*	2,409	-	-	-	(2,409)
Total Expenses	\$ 24,235,913	\$ 600,665	\$ 4,620,044	\$ -	\$ (19,015,204)

General Revenues:

Taxes and Subventions:

Taxes Levied for General Purposes	6,280,170
Taxes Levied for Debt Service	266,472
Federal and State Aid Not Restricted to Specific Programs	10,446,646
Interest and Investment Earnings	63,279
Interagency Revenues	90,583
Miscellaneous	997,797
Total General Revenues	<u>18,144,947</u>

Change in Net Position

(870,257)

Net Position Beginning-Restated (See Note P)

(3,933,057)

Net Position Ending

\$ (4,803,314)

*This amount excludes depreciation that is included in the direct expenses of various programs.

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Cafeteria Fund
ASSETS:		
Cash in County Treasury	\$ 657,013	\$ 11,518
Cash on Hand and in Banks	-	8,390
Cash in Revolving Fund	7,500	-
Cash with a Fiscal Agent/Trustee	5,000	-
Accounts Receivable	1,584,512	116,765
Due from Other Funds	212,000	53,064
Stores Inventories	-	32,316
Total Assets	<u>2,466,025</u>	<u>222,053</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 329,976	\$ 19,737
Due to Other Funds	653,064	170,000
Unearned Revenue	170,973	-
Total Liabilities	<u>1,154,013</u>	<u>189,737</u>
Fund Balance:		
Nonspendable Fund Balances:		
Revolving Cash	7,500	-
Stores Inventories	-	32,316
Restricted Fund Balances	290,147	-
Assigned Fund Balances	175,899	-
Unassigned:		
Reserve for Economic Uncertainty	838,466	-
Total Fund Balance	<u>1,312,012</u>	<u>32,316</u>
Total Liabilities and Fund Balances	<u>\$ 2,466,025</u>	<u>\$ 222,053</u>

The accompanying notes are an integral part of this statement.

Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 30,466	\$ 382,804	\$ 1,081,801
-	-	8,390
-	-	7,500
-	-	5,000
1,759	33,957	1,736,993
600,000	-	865,064
-	-	32,316
<u>632,225</u>	<u>416,761</u>	<u>3,737,064</u>
\$ 612	\$ 103	\$ 350,428
-	42,000	865,064
-	5,883	176,856
<u>612</u>	<u>47,986</u>	<u>1,392,348</u>
-	-	7,500
-	-	32,316
9,052	2,126	301,325
622,561	366,649	1,165,109
-	-	838,466
<u>631,613</u>	<u>368,775</u>	<u>2,344,716</u>
<u>\$ 632,225</u>	<u>\$ 416,761</u>	<u>\$ 3,737,064</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2018

Total fund balances - governmental funds \$ 2,344,716

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost	29,839,843	
Accumulated depreciation	(11,028,920)	
Net		18,810,923

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statements, it is recognized in the period that it is incurred. The additional liability for unmaturing interest owing at the end of the period was: (61,782)

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions		6,487,087
Deferred inflows of resources relating to pensions		(6,085,071)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds	1,579,369	
Net pension liability	19,444,805	
Total OPEB liability	4,037,566	
Energy loan	1,157,543	
Compensated absences payable	79,904	
Total		(26,299,187)

Total net position, governmental activities \$ (4,803,314)

The accompanying notes are an integral part of this statement.

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

	<u>General Fund</u>	<u>Cafeteria Fund</u>
Revenues:		
LCFF Sources:		
State Apportionment or State Aid	\$ 10,506,633	\$ -
Education Protection Account Funds	2,158,249	-
Local Sources	3,221,306	-
Federal Revenue	2,232,945	579,101
Other State Revenue	1,665,159	44,939
Other Local Revenue	2,872,968	76,937
Total Revenues	<u>22,657,260</u>	<u>700,977</u>
Expenditures:		
Current:		
Instruction	13,074,623	-
Instruction - Related Services	2,353,761	-
Pupil Services	2,548,640	899,553
Ancillary Services	365,697	-
General Administration	1,521,065	-
Plant Services	2,518,255	6,224
Other Outgo	54,108	-
Capital Outlay	314,370	5,473
Debt Service:		
Principal	112,669	-
Interest	97,125	-
Total Expenditures	<u>22,960,313</u>	<u>911,250</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(303,053)</u>	<u>(210,273)</u>
Other Financing Sources (Uses):		
Transfers In	-	182,692
Transfers Out	(183,908)	-
Total Other Financing Sources (Uses)	<u>(183,908)</u>	<u>182,692</u>
Net Change in Fund Balance	(486,961)	(27,581)
Fund Balance, July 1	1,798,973	59,897
Fund Balance, June 30	<u>\$ 1,312,012</u>	<u>\$ 32,316</u>

The accompanying notes are an integral part of this statement.

Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 10,506,633
-	-	2,158,249
-	-	3,221,306
-	-	2,812,046
-	186,622	1,896,720
77,670	291,291	3,318,866
<u>77,670</u>	<u>477,913</u>	<u>23,913,820</u>
-	163,590	13,238,213
-	41,550	2,395,311
-	2,500	3,450,693
-	-	365,697
65,446	1,280	1,587,791
-	9,100	2,533,579
-	-	54,108
-	-	319,843
-	195,000	307,669
-	66,000	163,125
<u>65,446</u>	<u>479,020</u>	<u>24,416,029</u>
12,224	(1,107)	(502,209)
331	3,146	186,169
-	(2,261)	(186,169)
<u>331</u>	<u>885</u>	<u>-</u>
12,555	(222)	(502,209)
619,058	368,997	2,846,925
<u>\$ 631,613</u>	<u>\$ 368,775</u>	<u>\$ 2,344,716</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total change in fund balances, governmental funds	\$	(502,209)
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Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	530,299	
Expenditures for capital outlay:	(1,304,264)	
Depreciation expense:	<u> </u>	
Net		(773,965)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:		307,669
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Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:		202,124
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Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		217,595
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Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:		(5,741)
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Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		(328,604)
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Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:		<u>12,874</u>
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Change in net position of governmental activities	\$	<u>(870,257)</u>
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The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2018

	Agency Fund
	Student Body Fund
ASSETS:	
Cash on Hand and in Banks	\$ 40,735
Total Assets	<u>40,735</u>
LIABILITIES:	
Due to Student Groups	\$ 40,735
Total Liabilities	<u>40,735</u>
NET POSITION:	
Total Net Position	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. 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. The District has no component units.

3. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Facilities Fund. This fund is used to account for fees and resources that will be used for the acquisition of capital assets for the district.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Cafeteria Fund. This fund is used to account for the food services operations of the District.

In addition, the District reports the following fund types:

Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds. These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements. included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

4. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

5. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

6. Revenues and Expenses

a. Revenues - Exchange and Non-Exchange

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

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

c. 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 government-wide financial statements.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018

7. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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

e. Unearned Revenue

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

i. Minimum Fund Balance

The District maintains a minimum reserve, within the general fund, an amount not less than the amount required by state law. The minimum reserve shall apply towards the established minimum Reserve for Economic Uncertainties or an amount that meets or exceeds the requirements by law. The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints in use, the Reserve for Economic Uncertainties consists of balances that are otherwise unassigned.

8. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

9. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 17 (Special Reserve Fund for Other Than Capital Outlay) and Fund 20 (Special Reserve Fund for Postemployment Benefits) are merged with the General Fund for purposes of presentation in the audit report.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan), and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
Level 2 Inputs:	Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 Inputs:	Unobservable inputs for an asset or liability.

For the current fiscal year the District did not have any recurring or nonrecurring fair value measurements.

13. Change in Accounting Policies

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement replaces the requirements of GASB 45 and GASB 57. This statement establishes standards for recognizing and measuring OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also 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 for defined benefit OPEB.

The District provides a defined benefit OPEB plan that is not administered through a trust, but meets the criteria specified in GASB 75. As a result, the District has adjusted measurement of OPEB liability, OPEB expense, and related deferred outflows and inflows of resources in compliance with GASB 75. The change in accounting policies resulted in an adjustment to beginning net position in order to accurately reflect current period transactions. Additional note disclosures regarding OPEB liability, OPEB expense, and related deferred inflows and outflows of resources are located in Note O. Additional note disclosures regarding the adjustment to beginning net position resulting from this change in accounting policy are located in Note P.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

GASB 81 - Irrevocable Split-Interest Agreements

The primary objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement requires that a government receiving resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. This statement also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In addition, this statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The District does not receive resources pursuant to an irrevocable split-interest agreement, nor does the District have any beneficial interests in irrevocable split interest agreements as of June 30, 2018. The District has adopted the accounting policies in the event that the District obtains a beneficial interest in a future split-interest agreement. There have been no adjustments made to the financial statements or note disclosures as a result of adoption of the accounting policies pursuant to GASB 81.

GASB 85 - Omnibus 2017

The primary objective of this statement is to address practice issues that were identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The statement was issued as a clarifying measure to previously issued statements.

The implementation of this statement resulted in a change in how the District recognizes on-behalf payments for the special funding situation for CalSTRS pension. The results of implementing these accounting policies did not have a material effect on the financial statements and did not affect previous periods.

GASB 86 - Certain Debt Extinguishment Issues

The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial statements for debt that is defeased in substance.

The District does not have any in-substance defeasance of debt as of June 30, 2018. The District has adopted the accounting policies in the event that the District extinguishes debt through use of a legal extinguishment or through an in-substance defeasance in a future period. There have been no adjustments made to the financial statements or note disclosures as a result of adoption of the accounting policies pursuant to GASB 86.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$1,081,801 as of June 30, 2018). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$1,081,801. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

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 investments in the pool is reported in the accounting financial statements as 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 the 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 San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

2. Cash with Fiscal Agent

The District's cash with fiscal agent at June 30, 2018 is shown below.

Account Type	Average Days to Maturity	Amount Reported
Cash Equivalents	<30 Days	\$ 5,000
Total Cash with Fiscal Agent		\$ 5,000

3. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$49,125 as of June 30, 2018) and in the revolving fund (\$7,500) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

4. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

5. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

As of June 30, 2018, the District's bank balances (including revolving cash) was not exposed to custodial credit risk.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

6. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported in conformity with GASB Statement No. 77 unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

D. Accounts Receivable

Accounts receivable balances as of June 30, 2018 consist of:

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Cafeteria Fund	Capital Facilities Fund		
Federal Government:					
Federal programs	\$ 727,236	\$ 103,561	\$ -	\$ 33,551	\$ 864,348
State Government:					
Lottery	65,084	-	-	-	65,084
LCFF state aid	432,453	-	-	-	432,453
Other state programs	32,796	8,109	-	-	40,905
Local Sources:					
Interest	3,063	99	1,759	406	5,327
Special education	97,794	-	-	-	97,794
Other local sources	226,086	4,996	-	-	231,082
Total	<u>\$ 1,584,512</u>	<u>\$ 116,765</u>	<u>\$ 1,759</u>	<u>\$ 33,957</u>	<u>\$ 1,736,993</u>

All accounts receivable are deemed to be fully collectible and as such no allowance for doubtful accounts has been established.

E. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 729,570	\$ -	\$ -	\$ 729,570
Total capital assets not being depreciated	<u>729,570</u>	<u>-</u>	<u>-</u>	<u>729,570</u>
Capital assets being depreciated:				
Buildings	19,610,349	-	-	19,610,349
Improvements	3,680,577	49,780	-	3,730,357
Equipment	5,289,048	480,519	-	5,769,567
Total capital assets being depreciated	<u>28,579,974</u>	<u>530,299</u>	<u>-</u>	<u>29,110,273</u>
Less accumulated depreciation for:				
Buildings	(5,235,055)	(609,097)	-	(5,844,152)
Improvements	(1,401,538)	(264,080)	-	(1,665,618)
Equipment	(3,088,063)	(431,087)	-	(3,519,150)
Total accumulated depreciation	<u>(9,724,656)</u>	<u>(1,304,264)</u>	<u>-</u>	<u>(11,028,920)</u>
Total capital assets being depreciated, net	<u>18,855,318</u>	<u>(773,965)</u>	<u>-</u>	<u>18,081,353</u>
Governmental activities capital assets, net	<u>\$ 19,584,888</u>	<u>\$ (773,965)</u>	<u>\$ -</u>	<u>\$ 18,810,923</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Depreciation was charged to functions as follows:

Instruction	\$ 564,330
Pupil Services	64,594
General Administration	500,668
Plant Services	172,263
Unallocated	2,409
	<u>\$ 1,304,264</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2018, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Child Development Fund	\$ 42,000	Temporary loan/expenses
General Fund	Cafeteria Fund	170,000	Temporary loan/expenses
Cafeteria Fund	General Fund	53,064	Temporary loan/expenses
Capital Facilities Fund	General Fund	600,000	Temporary loan/expenses
	Total	<u>\$ 865,064</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2018, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Adult Education Fund	\$ 885	Expenses
General Fund	Cafeteria Fund	182,692	Contribution to fund
General Fund	Capital Facilities Fund	331	Expenses
Deferred Maintenance Fund	Building Fund	2,261	Expenses
	Total	<u>\$ 186,169</u>	

G. Accounts Payable

Accounts payable at June 30, 2018 consisted of:

	<u>Major Governmental Funds</u>			<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Capital Facilities Fund</u>		
Vendor payables	\$ 295,815	\$ 19,061	\$ 612	\$ 103	\$ 315,591
Payroll and related benefits	31,219	608	-	-	31,827
Pension related liabilities	2,942	68	-	-	3,010
Totals	<u>\$ 329,976</u>	<u>\$ 19,737</u>	<u>\$ 612</u>	<u>\$ 103</u>	<u>\$ 350,428</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

H. Unearned Revenue

Unearned revenue as of June 30, 2018 consisted of:

	General Fund	Other Governmental Funds	Total Governmental Funds
Federal Government:			
Cal Well-NTTT	\$ 90,882	-	90,882
Indian Education	590	-	590
State Government:			
Career Tech Ed.	73,845	-	73,845
Child Development	-	5,883	5,883
Agriculture Tech Ed.	5,656	-	5,656
Totals	<u>\$ 170,973</u>	<u>-</u>	<u>176,856</u>

I. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources. The District did not enter into any short term debt agreements during the 2017-18 fiscal year.

J. Deferred Outflows of Resources

In accordance with GASB Statement No. 68 & 71, payments made subsequent to the net pension liability measurement date are recorded as deferred outflows of resources.

A summary of the deferred outflows of resources as of June 30, 2018 is as follows:

Description	Amortization Term	Balance July 1, 2017	Additions	Current Year Amortization	Balance June 30, 2018
Pension related	Varies	\$ 3,397,693	\$ 5,924,544	\$ 2,835,150	\$ 6,487,087
Total Deferred Outflows of Resources		<u>\$ 3,397,693</u>	<u>\$ 5,924,544</u>	<u>\$ 2,835,150</u>	<u>\$ 6,487,087</u>

Future amortization of deferred outflows of resources is as follows:

Year Ending June 30	Pension Related
2019	\$ 3,078,768
2020	1,417,800
2021	1,137,807
2022	852,712
Total	<u>\$ 6,487,087</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

K. Deferred Inflows of Resources

In accordance with GASB Statement No. 68 & 71, payments received subsequent to the net pension liability measurement date are recorded as deferred inflows of resources.

A summary of the deferred inflows of resources as of June 30, 2018 is as follows:

Description	Amortization Term	Balance July 1, 2017	Additions	Current Year Amortization	Balance June 30, 2018
Pension related	Varies	\$ 3,657,027	\$ 4,454,841	\$ 2,026,797	\$ 6,085,071
Total Deferred Inflows of Resources		<u>\$ 3,657,027</u>	<u>\$ 4,454,841</u>	<u>\$ 2,026,797</u>	<u>\$ 6,085,071</u>

Future amortization of deferred inflows of resources is as follows:

Year Ending June 30	Pension Related
2019	\$ 2,026,798
2020	1,693,195
2021	1,474,113
2022	890,965
Total	<u>\$ 6,085,071</u>

L. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 1,710,000	\$ -	\$ 195,000	\$ 1,515,000	\$ 210,000
Bond premium	77,243	-	12,874	64,369	12,874
Energy loan payable	1,270,212	-	112,669	1,157,543	78,080
Compensated absences *	74,163	5,741	-	79,904	79,904
Total OPEB liability	3,708,962	499,561	170,957	4,037,566	-
Net pension liability	19,001,051	443,754	-	19,444,805	-
Total governmental activities	<u>\$ 25,841,631</u>	<u>\$ 949,056</u>	<u>\$ 491,500</u>	<u>\$ 26,299,187</u>	<u>\$ 380,858</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

2. General Obligation Bonds

General obligation bonds issued by the District as of June 30, 2018 consisted of the following:

	Date of Issue	Interest Rate	Maturity Date	Original Issue Amount
2010 GO Refunding Bonds	08/18/10	2.00-4.00%	09/01/23	\$ 2,535,000
Bond Premium	08/18/10	-	09/01/23	154,487
				<u>\$ 2,689,487</u>

	Beginning Balance	Issued	Redeemed	Ending Balance
2010 GO Refunding Bonds	\$ 1,710,000	\$ -	\$ 195,000	\$ 1,515,000
Bond Premium	77,243	-	12,874	64,369
Total	<u>\$ 1,787,243</u>	<u>\$ -</u>	<u>\$ 207,874</u>	<u>\$ 1,579,369</u>

The annual requirements to amortize the bonds outstanding at June 30, 2018 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 210,000	\$ 64,500	\$ 274,500
2020	225,000	56,400	281,400
2021	245,000	47,700	292,700
2022	255,000	38,300	293,300
2023	280,000	28,300	308,300
2024-2028	300,000	23,600	323,600
Totals	<u>\$ 1,515,000</u>	<u>\$ 258,800</u>	<u>\$ 1,773,800</u>

3. Energy Loan Payable

The annual requirements to amortize the energy loan outstanding at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 78,080	\$ 61,783	\$ 139,863
2020	82,234	57,629	139,863
2021	86,607	53,256	139,863
2022	91,214	48,649	139,863
2023	96,066	43,797	139,863
2024-2028	562,630	136,685	699,315
2029-2033	160,712	10,550	171,262
Totals	<u>\$ 1,157,543</u>	<u>\$ 412,349</u>	<u>\$ 1,569,892</u>

4. Bond Premium

Bond premium arises when the market rate of interest is higher than the stated interest rate on the bond. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the bond and then amortize the premium over the life of the bond. The premiums are amortized over the life of the bond using the straight line method.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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The following bond was issued at a premium resulting in effective interest as follows:

	2010 Refunding
Total Interest	\$ 811,770
Less Bond Premium	(154,487)
Net Interest	<u>657,283</u>
Par Amount of Bonds	\$ 2,535,000
Periods	12
Effective Interest Rate	2.16%

5. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2018 amounted to \$79,904. This amount is included as part of long-term liabilities in the government-wide financial statements.

6. Net Pension Liability

The District's beginning net pension liability was \$19,001,051 and increased by \$443,754 during the year ended June 30, 2018. The ending net pension liability at June 30, 2018 was \$19,444,805. See Note N for additional information regarding the net pension liability.

7. Total OPEB Liability

The District's beginning total OPEB liability was \$3,708,962 and increased during the year ended June 30, 2018 by \$328,604. The ending total OPEB liability at June 30, 2018 was \$4,037,566. See Note O for additional information regarding the net pension liability.

M. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA

Financial information on the District's share of the JPA for the year ended June 30, 2018 was not available at the time this report was issued. The information can be obtained by contacting the JPA directly.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

N. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

b. Benefits Paid

CalSTRS and CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

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

	CalSTRS	
	Before Jan. 1, 2013	On or After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 60	2% at 62**
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-62	55-67
Monthly Benefits as a % of Eligible Compensation	1.1-2.4%	1.0-2.4%*
Required Employee Contribution Rates (at June 30, 2018)	10.250%	9.205%
Required Employer Contribution Rates (at June 30, 2018)	14.430%	14.430%
Required State Contribution Rates (at June 30, 2018)	7.637%	7.637%

*Amounts are limited to 120% of Social Security Wage Base.

**The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

	CalPERS	
	Before Jan. 1, 2013	On or After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly For Life
Retirement Age	50-62	52-67
Monthly Benefits as a % of Eligible Compensation	1.1-2.5%	1.1-2.5%*
Required Employee Contribution Rates (at June 30, 2018)	7.000%	6.500%
Required Employer Contribution Rates (at June 30, 2018)	15.531%	15.531%

*Amounts are limited to 120% of Social Security Wage Base.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

c. Contributions

CalSTRS

For the measurement period ended June 30, 2017 (measurement date), Section 22950 of the California Education Code requires members to contribute monthly to the system 9.205% (if hired on or after January 1, 2013) or 10.25% (if hired before January 1, 2013) of the creditable compensation upon which members' contributions under this part are based. In addition, the employer required rates established by the CalSTRS Board have been established at 12.58% of creditable compensation for the measurement period ended June 30, 2017 and 14.43% for the fiscal year ended June 30, 2018. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Beginning in the fiscal year 2021-22 and for each fiscal year thereafter, the CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary.

CalPERS

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. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2017 (measurement date), employees hired prior to January 1, 2013 paid in 7.00%, employees hired on or after January 1, 2013 paid in 6.00%, and the employer contribution rate was 13.888% of covered payroll. For the fiscal year ending June 30, 2018, employees hired prior to January 1, 2013 contributed 7.00%, employees hired on or after January 1, 2013 contributed 6.50%, and the employer's contribution rate was 15.531%.

On Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the District. For the measurement period ended June 30, 2017 (measurement date) the State contributed 7.637% of salaries creditable to CalSTRS. In accordance with GASB 85 the District recorded these contributions as revenue and expense in the fund financial statements based on contributions made for the measurement period (current financial resources measurement focus). The government-wide financial statements have recorded revenue and expense for pension expense paid on behalf of the District (economic resources measurement focus). 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. Contributions reported each fiscal year are based on the District's proportionate share of the States contribution for the measurement period.

Contributions made by the State on behalf of the District for the past three fiscal years are as follows:

Year Ended June 30,	Contribution Rate	Contribution Amount
2016	5.540%	\$ 1,698,198
2017	6.540%	2,141,039
2018	7.637%	2,977,390

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
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The State's pension expense associated with District employees for the past three fiscal years are as follows:

Year Ended June 30,	On Behalf Pension Expense
2016	\$ 820,224
2017	1,173,695
2018	330,009

d. Contributions Recognized

For the measurement period ended June 30, 2017 (fiscal year June 30, 2018), the contributions recognized for each plan were:

	CalSTRS	CalPERS	Total
Contributions - Employer	\$ 914,516	\$ 502,832	\$ 1,417,348
Contributions - State On Behalf Payments	543,076	-	543,076
Total Contributions	\$ 1,457,592	\$ 502,832	\$ 1,960,424

2. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018 the District reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	CalSTRS	CalPERS	Total
Proportionate Share of Net Pension Liability - Governmental	\$ 12,715,109	\$ 6,729,697	\$ 19,444,806

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017. The total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to measurement date June 30, 2017 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, as actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2017 and June 30, 2018 were as follows:

	CalSTRS		
	District's Proportionate Share	State's Proportionate Share	Total For District Employees
Proportion June 30, 2017	0.0156%	0.0089%	0.0245%
Proportion June 30, 2018	0.0137%	0.0082%	0.0219%
Change in Proportion	-0.0019%	-0.0007%	-0.0026%
	CalPERS		
	District's Proportionate Share		
Proportion June 30, 2017	0.0323%		
Proportion June 30, 2018	0.0282%		
Change in Proportion	-0.0041%		

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

a. Pension Expense

For the measurement period ended June 30, 2017 (fiscal year June 30, 2018), pension expense was recognized as follows:

	CalSTRS	CalPERS	Total
Change in Net Pension Liability (Asset)	\$ 102,179	\$ 341,575	\$ 443,754
State On Behalf Pension Expense	330,009	-	330,009
Employer Contributions to Pension Expense	1,026,097	634,869	1,660,966
(Increase) Decrease in Deferred Outflows of Resources			
Employer Contributions Subsequent to Measurement Date	(111,581)	(132,037)	(243,618)
Differences between actual and expected experiences	(43,887)	(17,968)	(61,855)
Changes in assumptions	(2,198,520)	(1,048,510)	(3,247,030)
Changes in proportionate share	-	-	-
Net difference between projected and actual earnings	1,148	461,961	463,109
Increase (Decrease) in Deferred Inflows of Resources			
Differences between actual and expected experiences	(1,180)	-	(1,180)
Changes in assumptions	-	(81,808)	(81,808)
Changes in proportionate share	523,534	607,151	1,130,685
Net difference between projected and actual earnings	1,203,422	176,925	1,380,347
Total Pension Expense	<u>\$ 831,221</u>	<u>\$ 942,158</u>	<u>\$ 1,773,379</u>

b. Deferred Outflows and Inflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		
	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	\$ 1,026,097	\$ 634,869	\$ 1,660,966
Differences between actual and expected experience	43,887	349,782	393,669
Changes in assumptions	2,198,520	1,048,510	3,247,030
Changes in employer's proportionate share	-	-	-
Net difference between projected and actual earnings	2,799	1,182,623	1,185,422
Total Deferred Outflows of Resources	<u>\$ 3,271,303</u>	<u>\$ 3,215,784</u>	<u>\$ 6,487,087</u>

	Deferred Inflows of Resources		
	CalSTRS	CalPERS	Total
Differences between actual and expected experience	\$ (1,847)	\$ -	\$ (1,847)
Changes in assumptions	-	(163,617)	(163,617)
Changes in employer's proportionate share	(3,081,642)	(791,612)	(3,873,254)
Net difference between projected and actual earnings	(1,203,422)	(842,931)	(2,046,353)
Total Deferred Inflows of Resources	<u>\$ (4,286,911)</u>	<u>\$ (1,798,160)</u>	<u>\$ (6,085,071)</u>

Pension contributions made subsequent to the measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2019. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Year Ended June 30,	Governmental Activities				Net Effect on Expenses
	Deferred Outflows of Resources		Deferred Inflows of Resources		
	CalSTRS	CalPERS	CalSTRS	CalPERS	
2019	\$ 1,587,847	\$ 1,490,921	\$ (1,271,076)	\$ (755,722)	\$ 1,051,970
2020	561,749	856,051	(1,270,478)	(422,717)	(275,395)
2021	561,106	576,701	(1,145,989)	(328,124)	(336,306)
2022	560,601	292,111	(599,368)	(291,597)	(38,253)
Total	\$ 3,271,303	\$ 3,215,784	\$ (4,286,911)	\$ (1,798,160)	\$ 402,016

c. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date Measurement Date Actuarial Cost Method Actuarial Assumptions:	CalSTRS	CalPERS
	June 30, 2016 June 30, 2017 Entry Age Normal	June 30, 2016 June 30, 2017 Entry Age Normal
Discount Rate	7.10%	7.15%
Inflation	2.75%	2.75%
Wage Growth	3.50%	3.00%
Projected Salary Increase	0.5% - 6.4% (1)	3.10% - 9.00% (1)
Investment Rate of Return	7.10% (2)	7.50% (2)
Mortality	0.073%-22.86% (3)	0.466%-32.536% (3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) RP2000 series tables adjusted to fit CalSTRS/CalPERS specific experience.

d. Discount Rate

The discount rate used to measure the total pension liability was 7.1000% for CalSTRS and 7.1500% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the District bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the District bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from CalPERS and CalSTRS websites.

The CalPERS discount rate was increased from 7.50% to 7.65% at measurement date June 30, 2015 (Fiscal year June 30, 2016) to correct for an adjustment to exclude administrative expenses. Subsequently CalPERS discount rate was decreased from 7.65% to 7.15% at measurement date June 30, 2017 (Fiscal year June 30, 2018) to adjust for changes resulting from actuarially determined amounts.

The CalSTRS discount rate was adjusted from 7.60% to 7.10% for measurement date June 30, 2017 (Fiscal year June 30, 2018) to adjust for changes resulting from a new actuarial experience study.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in the accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalSTRS and CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

CalSTRS and CalPERS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalSTRS and CalPERS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalSTRS and CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalSTRS and 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 10 years) and 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 quarter of one percent.

The tables below reflect the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

CalSTRS		
Asset Class	Assumed Allocation 06/30/2017	Long Term Expected Return*
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash/Liquidity	2.00%	-1.00%

*20 year geometric average used for long term expected real rate of return

CalPERS			
Asset Class	Assumed Allocation 06/30/2017	Real Return Years 1-10(1)	Real Return Years 11+(2)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Assets	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

e. Sensitivity to Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	CalSTRS	CalPERS
1% Decrease	6.10%	6.15%
Net Pension Liability	\$ 18,669,817	\$ 9,901,541
Current Discount Rate	7.10%	7.15%
Net Pension Liability	\$ 12,715,109	\$ 6,729,697
1% Increase	8.10%	8.15%
Net Pension Liability	\$ 7,882,460	\$ 4,098,387

f. Total Pension Liability, Pension Plan Fiduciary Net Position and Net Pension Liability

CalSTRS - Governmental Activities

	Increase (Decrease)				
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	State's Share of Net Pension Liability (c)	District's Share of Net Pension Liability (a) - (b) - (c)
Balance at June 30, 2017 (Previously Reported)	\$ 66,190,252	\$ 46,361,909	\$ 19,828,343	\$ 7,215,412	\$ 12,612,931
Changes for the year:					
Change in proportionate share	(7,023,615)	(4,919,580)	(2,104,035)	(611,460)	(1,492,575)
Service cost	1,328,865	-	1,328,865	495,126	833,739
Interest	4,432,545	-	4,432,545	1,651,535	2,781,010
Differences between expected and actual experience	87,437	-	87,437	32,578	54,859
Change in assumptions	4,380,170	-	4,380,170	1,632,020	2,748,150
Contributions:					
Employer	-	914,523	(914,523)	(340,745)	(573,778)
Employee	-	754,035	(754,035)	(280,948)	(473,087)
State On Behalf	-	543,079	(543,079)	(202,347)	(340,732)
Net investment income	-	5,514,698	(5,514,698)	(2,054,737)	(3,459,961)
Other income	-	15,779	(15,779)	(5,879)	(9,900)
Benefit payments, including refunds of employee contributions	(3,046,603)	(3,046,603)	-	-	-
Administrative expenses	-	(39,964)	39,964	14,890	25,074
Borrowing costs	-	(12,701)	12,701	4,732	7,969
Other expenses	-	(2,246)	2,246	837	1,409
Net Changes	158,799	(278,980)	437,779	335,602	102,177
Balance at June 30, 2018	\$ 66,349,051	\$ 46,082,929	\$ 20,266,122	\$ 7,551,014	\$ 12,715,108

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

CalPERS - Governmental Activities

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2017 (Previously Reported)	\$ 24,473,068	\$ 18,084,946	\$ 6,388,122
Changes for the year:			
Adjustment for change in proportionate share	(3,143,661)	(2,323,082)	(820,579)
Service cost	572,796	-	572,796
Interest	1,612,421	-	1,612,421
Differences between expected and actual experience	149,932	-	149,932
Changes in assumptions	1,310,637	-	1,310,637
Contributions - Employer	-	502,835	(502,835)
Contributions - Employee	-	252,988	(252,988)
Net plan to plan resource movement	-	(38)	38
Net investment income	-	1,751,101	(1,751,101)
Benefit payments, including refunds of employee contributions	(1,050,052)	(1,050,052)	-
Administrative expenses	-	(23,254)	23,254
Net Changes	<u>(547,927)</u>	<u>(889,502)</u>	<u>341,575</u>
Balance at June 30, 2018	<u>\$ 23,925,141</u>	<u>\$ 17,195,444</u>	<u>\$ 6,729,697</u>

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalSTRS and CalPERS financial reports.

O. Postemployment Benefits Other Than Pension Benefits

1. General Information about the OPEB Plan

Plan Description

The District's defined benefit OPEB plan, Mountain Empire Unified School District Retiree Healthcare Plan (the Plan), provides OPEB for retirees that meet eligibility requirements until age 65. Retirees in the Plan are eligible for the same medical plans as active employees. The Plan is a single-employer defined benefit OPEB plan administered by the District. Authority to establish and amend the benefit terms and financing requirements lie with the District's board of directors. No assets are accumulated in a trust that meets the criteria in Paragraph 4 of Statement 75.

Plan Eligibility

Certificated Employees Including Management

The District provides retiree medical (including prescription drug benefits) to eligible retirees to Medicare eligibility age (currently age 65) or a period of 10 years, if earlier. Eligibility for retiree medical benefits requires retirement under STRS/PERS on or after age 55 with at least 15 years of District eligible full-time service. The District's contribution is negotiated regularly and is currently based on the medical plan elected payable tenths. Retirees can elect dependent medical coverage on a self-pay basis.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018

Classified Employees including Management

The District provides retiree medical (including prescription drugs), vision and dental benefits to eligible retirees to Medicare eligibility age (currently age 65) or a period of 7 years, if earlier. Eligibility for retiree health benefits requires retirement under STRS/PERS on or after age 55 (but prior to the attainment of age 64) with at least 10 years of District eligible service. The District's contribution is negotiated regularly and is currently 100% of medical, vision and dental retiree only coverage for the Kaiser HMO. Retirees are required to pay a contribution for United Healthcare HMO retiree only coverage. Retirees can elect dependent coverage on a self-pay basis.

Classified employees may also opt-out of retiree health benefits at retirement for a one-time payment equal to 20% of annual salary at retirement.

Employees Covered by Benefit Terms

At June 30, 2018, the following retirees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	14
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>277</u>
Total number of participants	<u><u>291</u></u>

2. Total OPEB Liability

The District's total OPEB liability of \$4,037,566 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

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

Inflation	2.75% per annum
Salary Increases	3.00% per annum, in aggregate
Discount Rate	3.35% per annum
Healthcare Cost Trend Rates	6.50% decreasing to 5.00%
Retiree's Share of Costs	0.00% of projected premiums

The discount rate is the average, rounded to 5 basis points, of the range of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO 20 Year Bond Index.

Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for pension valuations. The CalPERS mortality table was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. The CalSTRS mortality table was developed based on CalSTRS specific data. The table includes mortality improvements set at 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of CalPERS actuarial experience study for the period July 1, 1997 through June 30, 2011 and the CalSTRS experience study for the period July 1, 2010 through June 30, 2015.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 3,708,962
Changes for the year:	
Service cost	365,916
Interest	133,645
Benefit payments	<u>(170,957)</u>
Net changes	<u>328,604</u>
Balance at June 30, 2018	\$ <u>4,037,566</u>

There were no changes in benefit terms or assumptions and other inputs for the fiscal year ended June 30, 2018.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.35%) or 1-percentage-point-higher (4.35%) than the current discount rate:

	<u>1% Decrease (2.35%)</u>	<u>Discount Rate (3.35%)</u>	<u>1% Increase (4.35%)</u>
Total OPEB Liability	\$ 4,361,580	\$ 4,037,566	\$ 3,736,016

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point-lower (5.50% decreasing to 4.00% per year) or 1-percentage-point higher (7.50% decreasing to 6.00% per year) than the current healthcare cost trend rates:

	<u>1% Decrease 5.50% decreasing to 4.00%</u>	<u>Healthcare Cost Trend Rate 6.50% decreasing to 5.00%</u>	<u>1% Increase 7.50% decreasing to 6.00%</u>
Total OPEB Liability	\$ 3,591,763	\$ 4,037,566	\$ 4,563,151

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

For the year ended June 30, 2018 the District recognized OPEB expense of \$499,561. At June 30, 2018 the District did not report any deferred outflows of resources related to OPEB

At June 30, 2018 the District did not report any deferred inflows of resources relating to OPEB.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018

P. Adjustments to Beginning Net Position

During the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Implementation of GASB Statement No. 75 resulted in a change in calculations of total OPEB liability as well as deferred outflows and deferred inflows of resources associated with OPEB. The result of applying the change in accounting policy is an adjustment to beginning net position on the government wide financial statements. In addition, the District recognized and made adjustments to fixed assets and accumulated depreciation to account after a review of capital assets. The adjustments for this review are shown below.

A summary of adjustments to beginning balance are as follows:

	<u>Government Wide Financial Statements</u>
Beginning Net Position - Originally Stated	\$ <u>(1,964,886)</u>
Adjustments for Accounting Policy Change:	
Total OPEB Liability	(1,786,639)
Prior year adjustment to fixed assets and accumulated depreciation	<u>(181,532)</u>
Total Adjustments	<u>(1,968,171)</u>
Beginning Net Position - As Restated	\$ <u><u>(3,933,057)</u></u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Q. Components of Ending Fund Balance

As of June 30, 2018 ending fund balance in governmental funds consisted of the following:

	Major Governmental Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Cafeteria Fund	Capital Projects Fund		
Nonspendable Fund Balances					
Revolving Cash	\$ 7,500	\$ -	\$ -	\$ -	\$ 7,500
Stores Inventory	-	32,316	-	-	32,316
Restricted Fund Balances					
Adult Education	-	-	-	17	17
Child Nutrition Program	-	-	-	-	-
Capital Projects	-	-	9,052	-	9,052
Mental Health	50,092	-	-	-	50,092
College Readiness Grant	36,923	-	-	-	36,923
Special Education	2,290	-	-	-	2,290
Child Development	-	-	-	232	232
Lottery-Instructional Materials	27,007	-	-	-	27,007
Ongoing & Major Maintenance	11,749	-	-	-	11,749
Other	162,084	-	-	1,877	163,961
Committed Fund Balances					
Deferred Maintenance	-	-	-	-	-
Assigned Fund Balances					
Capital Projects	-	-	622,561	73,553	696,114
OPEB	168,401	-	-	-	168,401
Debt Service	-	-	-	293,096	293,096
Educational Programs	7,500	-	-	-	7,500
Unassigned Fund Balances					
Reserve Economic Uncertainty	838,466	-	-	-	838,466
Total	\$ 1,312,012	\$ 32,316	\$ 631,613	\$ 368,775	\$ 2,344,716

R. Risk Management

The District is exposed to risk of losses due to:

- a. Torts,
- b. Theft of, damage to, or destruction of assets,
- c. Business interruption,
- d. Errors or omissions,
- e. Job related illnesses or injuries to employees,
- f. Natural disasters,
- g. Other risks associated with public entity risk pools

Risk management is the process of managing the District's activities to minimize the adverse effects of these risks. The main element of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses). Risk financing techniques include risk retention (self-insurance), risk transfer to and from an insurer, and risk transfer to a noninsurer

The District has implemented the risk financing technique of risk transfer to an insurer. The District has purchased property & liability insurance as well as workers compensation insurance to cover any losses resulting from the risks identified above.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

The District purchases insurance through joint powers authorities. The District is not obligated to cover any losses beyond the premiums paid for the insurance costs. As a result there has not been a liability recorded for incurred but not reported claims.

S. Construction Commitments

As of June 30, 2018 the District had no commitments with respect to unfinished capital projects.

T. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

U. Subsequent Events

Implementation of New Accounting Guidance

The District has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2019. Those newly implemented pronouncements are as follows:

GASB 83 - Certain Asset Retirement Obligations

This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

The District does not currently have any AROs and does not expect that implementation of the pronouncement will have an impact on the financial statements.

GASB 88 - Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

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

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
LCFF Sources:				
State Apportionment or State Aid	\$ 9,880,583	\$ 10,636,406	\$ 10,506,633	\$ (129,773)
Education Protection Account Funds	1,866,734	2,001,411	2,158,249	156,838
Local Sources	3,253,022	3,060,063	3,221,306	161,243
Federal Revenue	2,021,602	2,439,295	2,232,945	(206,350)
Other State Revenue	1,076,402	1,353,369	1,665,159	311,790
Other Local Revenue	2,904,542	3,140,723	2,870,007	(270,716)
Total Revenues	<u>21,002,885</u>	<u>22,631,267</u>	<u>22,654,299</u>	<u>23,032</u>
Expenditures:				
Current:				
Certificated Salaries	7,246,311	8,004,414	7,929,744	74,670
Classified Salaries	4,060,153	4,310,794	4,160,704	150,090
Employee Benefits	5,022,082	5,257,614	5,322,405	(64,791)
Books And Supplies	1,361,078	1,765,954	1,596,181	169,773
Services And Other Operating Expenditures	3,046,814	3,516,535	3,428,395	88,140
Direct Support/Indirect Costs	-	-	(1,280)	1,280
Capital Outlay	227,104	390,793	314,370	76,423
Debt Service:				
Principal	67,622	67,622	112,669	(45,047)
Interest	72,236	72,236	97,125	(24,889)
Total Expenditures	<u>21,103,400</u>	<u>23,385,962</u>	<u>22,960,313</u>	<u>425,649</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(100,515)</u>	<u>(754,695)</u>	<u>(306,014)</u>	<u>448,681</u>
Other Financing Sources (Uses):				
Transfers In	750	750	-	(750)
Transfers Out	(143,710)	(99,930)	(183,908)	(83,978)
Total Other Financing Sources (Uses)	<u>(142,960)</u>	<u>(99,180)</u>	<u>(183,908)</u>	<u>(84,728)</u>
Net Change in Fund Balance	(243,475)	(853,875)	(489,922)	363,953
Fund Balance, July 1	1,599,064	1,599,064	1,599,064	-
Fund Balance, June 30	<u>\$ 1,355,589</u>	<u>\$ 745,189</u>	<u>\$ 1,109,142</u>	<u>\$ 363,953</u>

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

EXHIBIT B-2

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Federal Revenue	\$ 604,542	\$ 599,000	\$ 579,101	\$ (19,899)
Other State Revenue	46,390	46,390	44,939	(1,451)
Other Local Revenue	88,500	83,500	76,937	(6,563)
Total Revenues	<u>739,432</u>	<u>728,890</u>	<u>700,977</u>	<u>(27,913)</u>
Expenditures:				
Current:				
Classified Salaries	327,353	324,242	326,061	(1,819)
Employee Benefits	166,150	169,656	168,828	828
Books And Supplies	342,265	342,265	371,952	(29,687)
Services And Other Operating Expenditures	37,167	40,722	38,936	1,786
Capital Outlay	7,500	7,500	5,473	2,027
Total Expenditures	<u>880,435</u>	<u>884,385</u>	<u>911,250</u>	<u>(26,865)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(141,003)</u>	<u>(155,495)</u>	<u>(210,273)</u>	<u>(54,778)</u>
Other Financing Sources (Uses):				
Transfers In	142,960	99,628	182,692	83,064
Total Other Financing Sources (Uses)	<u>142,960</u>	<u>99,628</u>	<u>182,692</u>	<u>83,064</u>
Net Change in Fund Balance	1,957	(55,867)	(27,581)	28,286
Fund Balance, July 1	59,897	59,897	59,897	-
Fund Balance, June 30	<u>\$ 61,854</u>	<u>\$ 4,030</u>	<u>\$ 32,316</u>	<u>\$ 28,286</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
District's proportion of the net pension liability (asset)	0.0137%	0.0156%	0.0197%	0.0207%	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability (asset)	\$ 12,715,109	\$ 12,612,930	\$ 13,231,420	\$ 12,104,764	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
State's proportionate share of the net pension liability (asset) associated with the District	7,550,779	7,215,218	7,045,035	7,370,304	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$ 20,265,888	\$ 19,828,148	\$ 20,276,455	\$ 19,475,068	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's covered-employee payroll	\$ 7,269,603	\$ 7,747,848	\$ 9,082,185	\$ 9,178,642	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	174.91%	162.79%	145.69%	131.88%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	69.46%	70.04%	74.02%	76.25%	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 1,026,097	\$ 914,516	\$ 831,344	\$ 806,498	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the contractually required contribution	(1,026,097)	(914,516)	(831,344)	(806,498)	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's covered-employee payroll	\$ 7,110,859	\$ 7,269,603	\$ 7,747,848	\$ 9,082,185	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered-employee payroll	14.43%	12.58%	10.73%	8.88%	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
District's proportion of the net pension liability (asset)	0.0282%	0.0323%	0.0336%	0.3410%	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability (asset)	\$ 6,729,697	\$ 6,388,121	\$ 4,950,285	\$ 3,876,510	N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's covered-employee payroll	\$ 3,620,622	\$ 3,916,849	\$ 3,734,738	\$ 3,590,386	N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	185.87%	163.09%	132.55%	107.97%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	71.87%	73.90%	79.43%	83.38%	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 634,869	\$ 502,832	\$ 464,029	\$ 439,616	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the contractually required contribution	(634,869)	(502,832)	(464,029)	(439,616)	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
District's covered-employee payroll	\$ 4,087,754	\$ 3,620,622	\$ 3,916,849	\$ 3,734,738	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered-employee payroll	15.53%	13.89%	11.85%	11.77%	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN THE DISTRICT'S
 TOTAL OPEB LIABILITY AND RELATED RATIOS
 MEUSD HEALTH RETIREMENT PLAN
 LAST TEN FISCAL YEARS *

	Fiscal Year Ended									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total OPEB liability:										
Service cost	\$ 365,916	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA
Interest	133,645	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changes of benefit terms	-	NA	NA	NA	NA	NA	NA	NA	NA	NA
Differences between expected and actual experience	-	NA	NA	NA	NA	NA	NA	NA	NA	NA
Changes of assumptions or other inputs	-	NA	NA	NA	NA	NA	NA	NA	NA	NA
Benefit payments	(170,957)	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net change in total OPEB liability	328,604	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total OPEB liability - beginning	3,708,962	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total OPEB liability - ending	\$ 4,037,566	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA
Covered-employee payroll	\$ 14,717,000	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA	\$ NA
Total OPEB liability as a percentage of covered-employee payroll	27.43%	NA	NA	NA	NA	NA	NA	NA	NA	NA

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2018

Budgetary Comparison Schedule - General Fund

As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District's Special Reserve Fund for Other Than Capital Outlay (Fund 17) and Special Reserve Fund for Postemployment Benefits (Fund 20) were included with the General Fund. The Budgetary Comparison Schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only.

General Fund - Fund Financial Statements Ending Fund Balance	\$ 1,312,012
Less Fund 17 Fund Balance	(34,469)
Less Fund 20 Fund Balance	(168,401)
General Fund - Budgetary Comparison Schedule Ending Fund Balance	<u>\$ 1,109,142</u>
General Fund - Fund Financial Statements Net Change in Fund Balance	\$ (486,961)
Change in Fund Balance attributed to Fund 17	(441)
Change in Fund Balance attributed to Fund 20	(2,520)
General Fund - Budgetary Comparison Schedule Change in Fund Balance	<u>\$ (489,922)</u>

Excess of Expenditures Over Appropriations

As of June 30, 2018, expenditures exceeded appropriations in individual budgeted funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>	<u>Reason for Excess Expenditures</u>
General Fund:		
Employee Benefits	\$ 64,791	Unanticipated costs for inflationary benefits
Debt Service-Principal	45,047	Unanticipated debt principal incurred
Debt Service-Interest	24,889	Unanticipated debt interest incurred
Cafeteria Fund:		
Classified Salaries	1,819	Unanticipated costs for salaries
Books and Supplies	29,687	Unanticipated costs for supplies

Amounts in excess of appropriations were not considered a violation of any laws, regulations, contracts or grant agreements and did not have a direct or material effect on the financial statements.

Schedule of District's Proportionate Share - California State Teachers' Retirement System

- 1) Benefit Changes: In 2015, 2016, 2017 & 2018 there were no changes to benefits
- 2) Changes in Assumptions: In 2015, 2016 & 2017 there were no changes in assumptions. In 2018 there was a change in discount rate from 7.60% to 7.10%.

Schedule of District's Contributions - California State Teachers' Retirement System

The total pension liability for California State Teachers Retirement System was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2013, 2014, 2015 & 2016 and rolling forward the total pension liabilities to the June 30, 2014, 2015, 2016 & 2017 (measurement dates). In determining the total pension liability, the financial reporting actuarial valuation used the following actuarial methods and assumptions:

<u>Reporting Period</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Measurement Date	06/30/14	06/30/15	06/30/16
Valuation Date	06/30/13	06/30/14	06/30/15
Experience Study	07/01/06 - 06/30/10	07/01/06 - 06/30/10	07/01/06 - 06/30/10
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.60%	7.60%	7.60%
Consumer Price Inflation	3.00%	3.00%	3.00%
Wage Growth (Average)	3.75%	3.75%	3.75%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

<u>Reporting Period</u>	<u>June 30, 2018</u>
Measurement Date	06/30/17
Valuation Date	06/30/16
Experience Study	07/01/10 - 06/30/15
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth (Average)	3.50%
Post-retirement Benefit Increases	2.00% Simple

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

Schedule of District's Proportionate Share - California Public Employees Retirement System

1) Benefit Changes: In 2015, 2016, 2017 & 2018 there were no changes to benefits

2) Changes in Assumptions: In 2015 and 2017 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65%. In 2018 the discount rate was changed from 7.65% to 7.15%.

Schedule of District's Contributions - California Public Employees' Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, 2014, 2015, & 2016 and rolling forward the total pension liabilities to June 30, 2014, 2015, 2016 & 2017 (measurement dates). The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, June 30, 2016 and June 30, 2017 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

<u>Reporting Period</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Measurement Date	06/30/14	06/30/15	06/30/16
Valuation Date	06/30/13	06/30/14	06/30/15
Experience Study	07/01/97 - 06/30/11	07/01/97 - 06/30/11	07/01/97 - 06/30/11
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.50%	7.65%	7.65%
Consumer Price Inflation	2.75%	2.75%	2.75%
Wage Growth (Average)	3.00%	3.00%	3.00%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

<u>Reporting Period</u>	<u>June 30, 2018</u>
Measurement Date	06/30/17
Valuation Date	06/30/16
Experience Study	07/01/97 - 06/30/11
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth (Average)	3.00%
Post-retirement Benefit Increases	2.00% Simple

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the April 2014 experience study report (based on demographic data from 1997 to 2011) available on CalPERS website.

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

- 1) Benefit Changes: In 2018 there were no changes to benefits.
- 2) Changes in Assumptions: In 2018 there were no changes in assumptions.
- 3) No assets are accumulated in a trust that meets the criteria in GASB Statement No 75 paragraph 4.
- 4) The following are the discount rates used for each period:

<u>Year</u>	<u>Discount Rate</u>
2018	3.35%

Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018

	Special Revenue Funds	Debt Service Fund <u>Bond Interest & Redemption</u>	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
Cash in County Treasury	\$ 16,482	\$ 293,096	\$ 73,226	\$ 382,804
Accounts Receivable	33,621	-	336	33,957
Total Assets	<u>50,103</u>	<u>293,096</u>	<u>73,562</u>	<u>416,761</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 103	\$ -	\$ -	\$ 103
Due to Other Funds	42,000	-	-	42,000
Unearned Revenue	5,883	-	-	5,883
Total Liabilities	<u>47,986</u>	<u>-</u>	<u>-</u>	<u>47,986</u>
Fund Balance:				
Restricted Fund Balances	2,117	-	9	2,126
Assigned Fund Balances	-	293,096	73,553	366,649
Total Fund Balance	<u>2,117</u>	<u>293,096</u>	<u>73,562</u>	<u>368,775</u>
Total Liabilities and Fund Balances	<u>\$ 50,103</u>	<u>\$ 293,096</u>	<u>\$ 73,562</u>	<u>\$ 416,761</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

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

	Special Revenue Funds	Debt Service Fund <u>Bond Interest & Redemption</u>	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
Other State Revenue	\$ 184,053	\$ 2,569	\$ -	\$ 186,622
Other Local Revenue	23,439	266,727	1,125	291,291
Total Revenues	<u>207,492</u>	<u>269,296</u>	<u>1,125</u>	<u>477,913</u>
Expenditures:				
Current:				
Instruction	163,590	-	-	163,590
Instruction - Related Services	41,550	-	-	41,550
Pupil Services	2,500	-	-	2,500
General Administration	1,280	-	-	1,280
Plant Services	-	-	9,100	9,100
Debt Service:				
Principal	-	195,000	-	195,000
Interest	-	66,000	-	66,000
Total Expenditures	<u>208,920</u>	<u>261,000</u>	<u>9,100</u>	<u>479,020</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,428)</u>	<u>8,296</u>	<u>(7,975)</u>	<u>(1,107)</u>
Other Financing Sources (Uses):				
Transfers In	885	-	2,261	3,146
Transfers Out	(2,261)	-	-	(2,261)
Total Other Financing Sources (Uses)	<u>(1,376)</u>	<u>-</u>	<u>2,261</u>	<u>885</u>
Net Change in Fund Balance	(2,804)	8,296	(5,714)	(222)
Fund Balance, July 1	4,921	284,800	79,276	368,997
Fund Balance, June 30	<u>\$ 2,117</u>	<u>\$ 293,096</u>	<u>\$ 73,562</u>	<u>\$ 368,775</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:				
Cash in County Treasury	\$ 110	\$ 16,372	\$ -	\$ 16,482
Accounts Receivable	5	33,616	-	33,621
Total Assets	<u>115</u>	<u>49,988</u>	<u>-</u>	<u>50,103</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 98	\$ 5	\$ -	\$ 103
Due to Other Funds	-	42,000	-	42,000
Unearned Revenue	-	5,883	-	5,883
Total Liabilities	<u>98</u>	<u>47,888</u>	<u>-</u>	<u>47,986</u>
Fund Balance:				
Restricted Fund Balances	16	2,101	-	2,117
Total Fund Balance	<u>17</u>	<u>2,100</u>	<u>-</u>	<u>2,117</u>
Total Liabilities and Fund Balances	<u>\$ 115</u>	<u>\$ 49,988</u>	<u>\$ -</u>	<u>\$ 50,103</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:				
Other State Revenue	\$ 9,372	\$ 174,681	\$ -	\$ 184,053
Other Local Revenue	26	23,413	-	23,439
Total Revenues	<u>9,398</u>	<u>198,094</u>	<u>-</u>	<u>207,492</u>
Expenditures:				
Current:				
Instruction	10,284	153,306	-	163,590
Instruction - Related Services	-	41,550	-	41,550
Pupil Services	-	2,500	-	2,500
General Administration	-	1,280	-	1,280
Total Expenditures	<u>10,284</u>	<u>198,636</u>	<u>-</u>	<u>208,920</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(886)</u>	<u>(542)</u>	<u>-</u>	<u>(1,428)</u>
Other Financing Sources (Uses):				
Transfers In	885	-	-	885
Transfers Out	-	-	(2,261)	(2,261)
Total Other Financing Sources (Uses)	<u>885</u>	<u>-</u>	<u>(2,261)</u>	<u>(1,376)</u>
Net Change in Fund Balance	(1)	(542)	(2,261)	(2,804)
Fund Balance, July 1	18	2,642	2,261	4,921
Fund Balance, June 30	<u>\$ 17</u>	<u>\$ 2,100</u>	<u>\$ -</u>	<u>\$ 2,117</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2018

	Building Fund	County School Facilities Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash in County Treasury	\$ 73,217	\$ 9	\$ 73,226
Accounts Receivable	336	-	336
Total Assets	<u>73,553</u>	<u>9</u>	<u>73,562</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:			
Restricted Fund Balances	\$ -	\$ 9	\$ 9
Assigned Fund Balances	73,553	-	73,553
Total Fund Balance	<u>73,553</u>	<u>9</u>	<u>73,562</u>
Total Liabilities and Fund Balances	<u>\$ 73,553</u>	<u>\$ 9</u>	<u>\$ 73,562</u>

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Building Fund	County School Facilities Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:			
Other Local Revenue	\$ 1,125	\$ -	\$ 1,125
Total Revenues	<u>1,125</u>	<u>-</u>	<u>1,125</u>
Expenditures:			
Current:			
Plant Services	9,100	-	9,100
Total Expenditures	<u>9,100</u>	<u>-</u>	<u>9,100</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,975)</u>	<u>-</u>	<u>(7,975)</u>
Other Financing Sources (Uses):			
Transfers In	2,261	-	2,261
Total Other Financing Sources (Uses)	<u>2,261</u>	<u>-</u>	<u>2,261</u>
Net Change in Fund Balance	(5,714)	-	(5,714)
Fund Balance, July 1	79,267	9	79,276
Fund Balance, June 30	<u>\$ 73,553</u>	<u>\$ 9</u>	<u>\$ 73,562</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2018

Mountain Empire Unified School District was established in 1952. There were no changes in the boundaries of the district during the current fiscal year. The district is currently operating two elementary schools (Pre K-8), two elementary schools (PreK-5), two middle schools (6-8), one high school, and one alternative education program which consists of four schools.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Kenneth Northcote	President	Four Year Term Expires December 2018
Beryl Buchanan	Vice President	Four Year Term Expires December 2018
Chris Anderson	Clerk	Four Year Term Expires December 2020
Jeffrey Morrison	Member	Four Year Term Expires December 2020
Tina Heimerdinger	Member	Four Year Term Expires December 2020
Danny Nunez	Member	Four Year Term Expires December 2018
William Troutt	Member	Four Year Term Expires December 2018

Administration

Kathy Granger Ed.D.
Superintendent

Gary Hobelman
Assistant Superintendent
of Business Services

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

TABLE D-1

SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2018

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
TK/K-3:				
Regular ADA	526.91	N/A	530.86	N/A
Extended Year Special Education	1.25	N/A	1.25	N/A
TK/K-3 Totals	<u>528.16</u>	<u>N/A</u>	<u>532.11</u>	<u>N/A</u>
Grades 4-6:				
Regular ADA	388.79	N/A	390.00	N/A
Extended Year Special Education	0.70	N/A	0.70	N/A
Grades 4-6 Totals	<u>389.49</u>	<u>N/A</u>	<u>390.70</u>	<u>N/A</u>
Grades 7 and 8:				
Regular ADA	249.32	N/A	248.95	N/A
Extended Year Special Education	0.07	N/A	0.07	N/A
Special Education Nonpublic	0.57	N/A	1.32	N/A
Extended Year Special Education Nonpublic	0.13	N/A	0.92	N/A
Community Day School	0.60	N/A	0.64	N/A
Grades 7 and 8 Totals	<u>250.69</u>	<u>N/A</u>	<u>251.90</u>	<u>N/A</u>
Grades 9-12:				
Regular ADA	379.64	N/A	373.12	N/A
Nonpublic, Nonsectarian Schools	2.00	N/A	2.68	N/A
Extended Year Special Education Nonpublic	0.35	N/A	0.98	N/A
Community Day School	2.80	N/A	2.63	N/A
Grades 9-12 Totals	<u>384.79</u>	<u>N/A</u>	<u>379.41</u>	<u>N/A</u>
ADA Totals	<u>1,553.13</u>	<u>N/A</u>	<u>1,554.12</u>	<u>N/A</u>

N/A - There were no audit findings which resulted in necessary revisions to attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the district or charter school. 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 and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT**TABLE D-2**SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2018

<u>Grade Level</u>	<u>Ed. Code 46207 Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Transitional Kindergarten	36,000	59,426	180	-	Complied
Kindergarten	36,000	59,426	180	-	Complied
Grade 1	50,400	57,266	180	-	Complied
Grade 2	50,400	57,266	180	-	Complied
Grade 3	50,400	57,266	180	-	Complied
Grade 4	54,000	57,266	180	-	Complied
Grade 5	54,000	57,266	180	-	Complied
Grade 6	54,000	58,851	180	-	Complied
Grade 7	54,000	58,886	180	-	Complied
Grade 8	54,000	58,886	180	-	Complied
Grade 9	64,800	65,749	180	-	Complied
Grade 10	64,800	65,749	180	-	Complied
Grade 11	64,800	65,749	180	-	Complied
Grade 12	64,800	65,749	180	-	Complied

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts, including basic aid districts.

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

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2018

TABLE D-3

General Fund	Budget 2019 (See Note 1)	2018	2017	2016
Revenues and other financial sources	\$ 22,904,039	\$ 22,654,300	\$ 21,687,663	\$ 21,243,564
Expenditures, other uses and transfers out	22,947,598	23,144,221	22,308,738	22,429,165
Change in fund balance (deficit)	(43,559)	(489,921)	(621,075)	(1,185,601)
Ending fund balance	\$ 1,065,584	\$ 1,109,143	\$ 1,599,064	\$ 2,220,139
Available reserves (See Note 2)	\$ 778,657	\$ 811,498	\$ 1,096,751	\$ 1,637,183
Available reserves as a percentage of total outgo	3.4%	3.5%	4.9%	7.3%
Total long-term debt	\$ 2,435,958	\$ 2,736,912	\$ 3,057,455	\$ 3,310,722
Average daily attendance at P-2	1,558	1,553	1,475	1,467

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.

The general fund balance has decreased by \$2,296,597 over the past three years. The fiscal year 2018-19 budget projects a decrease of \$43,559. For a district of this size, the State recommends available reserves of at least 3 percent of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has decreased by \$573,810 over the past two years.

Average daily attendance has increased by 86 over the past two years.

Notes:

- 1 Budget 2019 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all assigned and unassigned fund balances contained within the General Fund.
- 3 In accordance with GASB Statement No. 54 the district has combined the General Fund with the Special Reserve Fund for Other than Capital Outlay (Fund 17) and The Special Reserve Fund for Other Post Employment Benefits (Fund 20) for reporting purposes in the financial statements. This schedule is a reflection of only the General Fund.
- 4 On behalf payments of \$543,076, \$779,093, and \$485,103, have been excluded from the calculation of available reserves as a percentage of total outgo for the fiscal years ending June 30, 2018, 2017 and 2016.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

Table D-4

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

	General Fund	Special Reserve for Other (Fund 17)	Special Reserve for OPEB (Fund 20)
June 30, 2018, annual financial and budget report fund balances	\$ 1,109,143	\$ 34,469	\$ 168,401
Adjustments and reclassifications:			
Increasing (decreasing) the fund balance:			
Incorporation of fund for GASB 54	202,870	(34,469)	(168,401)
Net adjustments and reclassifications	202,870	(34,469)	(168,401)
June 30, 2018, audited financial statement fund balances	\$ 1,312,013	\$ -	\$ -

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

The following charter schools are chartered by Mountain Empire Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
San Diego Neighborhood Homeschools (#1077)	No
County Collaborative Charter School (#1628)	No
San Diego Virtual Academy (#1264)	No
College Preparatory Middle - East County (#1899)	No
Pivot Charter School (#1266)	No
Compass Charter School (#1454)	No
Elite Academic Academy (#1924)	No
JCS Pine Valley (#2021)	No

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018

TABLE D-6
 Page 1 of 2

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
National School Lunch Program	10.555	13396	\$ -	\$ 579,103
National School Lunch Program Non Cash Commodities	10.555	-	-	51,686
Total Passed Through State Department of Education			-	630,789
Total U. S. Department of Agriculture			-	630,789
Total Child Nutrition Cluster			-	630,789
FOREST SERVICE SCHOOLS AND ROADS CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
Forrest Reserve	10.665	10044	-	181,861
Total U. S. Department of Agriculture			-	181,861
Total Forest Service Schools and Roads Cluster			-	181,861
MEDICAID CLUSTER:				
<u>U. S. Department of Health and Human Services</u>				
Direct Program:				
Medi-Cal Billing Option	93.778		-	4,530
Total U. S. Department of Health and Human Services			-	4,530
Total Medicaid Cluster			-	4,530
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA Basic	84.027	13379	-	457,346
IDEA Preschool	84.027A	13682	-	35,051
IDEA Preschool Grants	84.173	14340	-	14,033
IDEA Preschool Staff Development	84.173A	13431	-	99
Total Passed Through State Department of Education			-	506,529
Total U. S. Department of Education			-	506,529
Total Special Education (IDEA) Cluster			-	506,529
OTHER PROGRAMS:				
<u>U. S. Department of Health and Human Services</u>				
Passed Through State Department of Education:				
Advanced Wellness	93.243	15293	-	47,560
Head Start	93.600		-	368,926
Total Passed Through State Department of Education			-	416,486
Total U. S. Department of Health and Human Services			-	416,486
<u>U. S. Department of Education</u>				
Direct Program:				
Impact Aid - P.L. 81.874	84.041	-	\$ -	\$ 142,203
Passed Through State Department of Education:				
Title I Part A	84.010	14329	\$ -	\$ 666,740

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018

TABLE D-6
 Page 2 of 2

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Carl D. Perkins Career & Technical Education	84.048	14894	-	12,248
Title VII - Indian Education	84.060	10011	-	27,112
Title IV - 21st Century	84.287	14350	-	25,000
21st Century - ASSETS	84.287	14535	-	85,500
Advanced Placement	84.330B	14831	-	687
Title III	84.365	15146	-	104,761
Title II - Supporting Effective Instruction	84.367	14341	-	59,288
Total Passed Through State Department of Education			-	981,336
Total U. S. Department of Education			-	1,123,539
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 2,863,734

The accompanying notes are an integral part of this schedule.

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2018

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Mountain Empire Unified School District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Rate

Indirect costs were calculated in accordance with 2 CFR §200.412 Direct and Indirect Costs. The District used an indirect cost rate of 4.76% based on the rate approved by the California Department of Education for each program which did not have a pre-defined allowable indirect cost rate. The District did not elect to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect Costs. The following programs utilized a lower indirect cost rate based on program restrictions or other factors determined by the District:

Program	CFDA #	Indirect Cost Rate
Title I	84.010	3.74%
Special Education	84.027	4.21% - 4.75%
Title III	84.365	1.88%
Indian Education	84.060	3.59%
Head Start Program	93.600	3.05%

Schoolwide Program

The District operates "schoolwide programs" at all school sites. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limiting services to certain targeted students. The following federal program amounts were expended by the District in its schoolwide program:

Program	CFDA #	Amount Expended
Title I Part A	84.010	\$666,740

Other Independent Auditor's Reports



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Mark Bomediano, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA

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

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

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 Mountain Empire Unified School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mountain Empire Unified School District's basic financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mountain Empire 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 the Mountain Empire Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mountain Empire Unified School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wilkinson-Hadley King + Co LLP

El Cajon, California
December 17, 2018



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Mark Bomediano, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Mountain Empire 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 the Mountain Empire Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mountain Empire Unified School District's internal control over compliance.

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

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

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

Wilkinson Hadley King + Co LLP

El Cajon, California
December 17, 2018



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Mark Bomediano, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA

Independent Auditor's Report on State Compliance

Board of Trustees
Mountain Empire Unified School District
Pine Valley, California 91962

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2018.

Management's Responsibility for State Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State's audit guide, *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. Those standards and audit guide 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 direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

<u>Compliance Requirements</u>	<u>Procedures in Audit Guide Performed?</u>
--------------------------------	---

**LOCAL EDUCATION AGENCIES
OTHER THAN CHARTER SCHOOLS:**

Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	No
Instructional Time	Yes
Instructional Materials.....	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction.....	N/A

**SCHOOL DISTRICTS, COUNTY OFFICES OF
EDUCATION, AND CHARTER SCHOOLS:**

Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
After School	Yes
Before School	Yes
General Requirements	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	N/A

CHARTER SCHOOLS:

Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study.....	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

The term "N/A" is used above to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform testing for Independent Study and Continuation Education. The procedures were not required to be tested since there ADA was below that which requires testing.

Opinion on State Compliance

In our opinion, Mountain Empire Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2018.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King + Co LLP

El Cajon, California
December 17, 2018

Findings and Recommendations Section

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

84.027, 84.027A, 84.173, 84.173A Special Education Cluster

93.60 Head Start

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting? Yes No

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

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

NONE

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2017-001 (30000) Student Body Activities</p> <p><u>Finding</u> In our review of the receipts and deposits in the student body account for Mountain Empire High School, we noted various deposits from outside sources that did not have proper signed and verified cash tally sheets as documentation support for the funds collected. The school site utilizes a point-of-sale system for individual student sales; however, some special event and other fundraiser revenues collected did not have proper signed and completed cash tally sheets on hand and outside ticket sales did not have the number and individual cost of tickets sold on the cash transmittal forms. In addition, some ticket reconciliation forms were not being signed by the preparer/ticket seller and expenses from the ASB credit card lacked a description or purpose; therefore, we could not determine if the credit card expenses were valid for student body activities.</p> <p><u>Recommendation</u> Provide inservice training to the ASB clerk, advisors, and other key personnel involved in daily student body account operations. Ensure cash tally sheets are properly completed, dated, mathematically accurate, and completed by the preparer at the origin of sales, then subsequently verified by a second individual for all special event and fundraiser revenues derived from outside sources prior to posting to the point-of sale system. In addition, require all ticket reconciliations used for special events be signed by the preparer/ticket seller and all individual credit card expenses should list a description or purpose to verify the disbursements are valid for student body activities.</p>	<p>Implemented</p>	

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

[Date of Delivery]

Mountain Empire Unified School District
Pine Valley, California

Mountain Empire Unified School District
(San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Mountain Empire Unified School District (the “District”) in connection with the issuance by the County of San Diego (the “County”), on behalf of the District, of \$6,000,000 aggregate principal amount of bonds designated as “Mountain Empire Unified School District (San Diego County, California) General Obligation Bonds, Election of 2018, Series 2019” (the “Series 2019 Bonds”), representing part of an issue in the aggregate principal amount of \$15,000,000 authorized at an election held in the District on November 6, 2018. The Series 2019 Bonds are issued under and pursuant to a resolution of the Board of Supervisors of the County adopted on April 30, 2019 (the “County Resolution”), at the request of the District pursuant to a resolution of the Board of Education of the District adopted on April 9, 2019 (the “District Resolution”).

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2019 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District and the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed

compliance with all covenants and agreements contained in the District Resolution, the County Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2019 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2019 Bonds, the District Resolution, the County Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the District Resolution or the County Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated May 15, 2019, or other offering material relating to the Series 2019 Bonds and express no opinion with respect thereto.

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

1. The Series 2019 Bonds constitute valid and binding obligations of the District.
2. The District Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The County Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the County.
4. The Board of Supervisors of the County has power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2019 Bonds and the interest thereon.
5. Interest on the Series 2019 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2019 Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the Mountain Empire Unified School District (the “District”) in connection with the issuance of \$6,000,000 aggregate principal amount of Mountain Empire Unified School District (San Diego County, California) General Obligation Bonds, Election of 2018, Series 2019 (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Supervisors of the County of San Diego (the “County”) on April 30, 2019 (the “County Resolution”), at the request of the Board of Education of the District by its resolution adopted on April 9, 2019. The District covenants and agrees as follows:

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

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

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

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

“Dissemination Agent” shall mean KNN Public Finance, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

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

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

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

“Official Statement” shall mean the Official Statement, dated May 15, 2019 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

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

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

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which due date shall be March 31 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2018-19 Fiscal Year (which is due not later than March 31, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

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

(c) The Dissemination Agent shall:

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

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

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

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

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

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

(ii) Assessed value of taxable property in the District for the then-current fiscal year as shown on the most recent equalized assessment role.

(iii) If the County of San Diego (the “County”) no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the property tax levies, collections, and delinquencies for the District for the most recently completed fiscal year.

(iv) Top twenty property owners in the District for the then-current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value, if provided by the County.

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

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

- (i) principal and interest payment delinquencies;
- (ii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) substitution of credit or liquidity providers or their failure to perform;
- (v) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) tender offers;
- (vii) defeasances;
- (viii) rating changes;
- (ix) bankruptcy, insolvency, receivership or similar event of the obligated person; or
- (x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for 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) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

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

(ii) modifications to rights of Bond Holders;

(iii) Bond calls;

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

(v) non-payment related defaults;

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

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

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

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

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

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

provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

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

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

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

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

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

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

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

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth

in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: May 31, 2019

**MOUNTAIN EMPIRE UNIFIED SCHOOL
DISTRICT**

By: _____

ACCEPTED AND AGREED TO:

**KNN PUBLIC FINANCE,
as Dissemination Agent**

By: _____
Managing Principal

EXHIBIT A

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT
Name of Issue: Mountain Empire Unified School District (San Diego County, California)
General Obligation Bonds, Election of 2018, Series 2019
Date of Issuance: May 31, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated May 31, 2019. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

MOUNTAIN EMPIRE UNIFIED SCHOOL DISTRICT

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APPENDIX E

COUNTY OF SAN DIEGO INVESTMENT POOL

The following information concerning the Treasury Pool of San Diego County (the “Treasury Pool”) has been provided by the Treasurer and has not been confirmed or verified by the District or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

County of San Diego Investment Pool general information and portfolio statistics can be found at <https://www.sdttc.com/content/ttc/en/treasury/financial-reports.html>.

In accordance with Section 53600 et seq. of the Government Code of the State of California (the “Government Code”), the Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with Section 53635 et seq. of the Government Code. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the Treasurer’s investment portfolio conform to the statutory requirements of Section 53635 et seq. of the Government Code, authorities delegated by the County Board of Supervisors and the Treasurer’s investment policy.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County, funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County Treasury (“Involuntary Depositors”). In addition, certain agencies, such as cities and special districts, invest certain of their funds in the County Treasury on a voluntary basis (“Voluntary Depositors” and together with the Involuntary Depositors, the “Depositors”). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the “Treasury Pool” or the “Pool”). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days’ notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee pursuant to State law. The members of the Oversight Committee include the County Treasurer, the County Auditor–Controller, the County Superintendent of Schools or designee, a representative from special districts, a representative from school districts and community college districts in the County, and members of the public. The role of the Oversight Committee is to review and approve the Investment Policy that is prepared by the County Treasurer.

The Treasury Pool’s Portfolio

As of April 30, 2019, the securities in the Treasury Pool had a market value of \$11,199,667,684 and a book value of \$11,214,199,774, for a net unrealized loss of \$14,532,089 of the book value of the Treasury Pool.

The effective duration for the Treasury Pool was 0.87 years as of April 30, 2019. “Duration” is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.87 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.87%.

As of April 30, 2019, approximately 6.47% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 9.37% by community colleges, 40.47% by the County, 1.06% by Non-County and 42.63% by K-12 school districts.

Fitch Ratings maintains ratings of “AAAF” (highest underlying credit quality) and “S-1” (very low sensitivity to market risk) on the Pool. The ratings reflect only the view of the rating agency and any explanation of the significance of such ratings may be obtained from such rating agency as follows: Fitch Ratings, Inc., 33 Whitehall Street, New York, New York 10004.

Investments of the Treasury Pool

Authorized Investments: Investments of the Pool are placed in those securities authorized by various sections of the Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), asset backed (including mortgage related), pass-through securities, and specific Supranational debt securities.

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. At all times, the Pool’s investments will comply with Government Code and the County’s Investment Policy (the “Investment Policy”).

The Investment Policy currently states the primary goals of the County Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the County Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the County Treasurer within the parameters of prudent risk management. The Investment Policy contains a requirement that at least 35% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 15% of the securities must mature within 90 days. The maximum effective duration for the Pool shall be 2.0 years.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business on April 30, 2019. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following table were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on April 30, 2019, the Pool necessarily would have received the values specified.

SUMMARY PORTFOLIO STATISTICS

County of San Diego Pooled Money Fund

As of April 30, 2019

Investment Type	Par Value	Book Value	Market Value	% of Portfolio	Market Price	WAM	YTM	Accrued Interest	Unrealized Gain/Loss
Asset Backed Securities	600,251,624	598,697,684	600,913,342	5.34	100.110	1184	2.54	727,875	2,215,658
Bank Deposit	5,281,092	5,281,092	5,281,092	0.05	100.000	1	2.25	24,449	-
Commercial Paper Disc	3,615,000,000	3,599,446,040	3,600,817,400	32.10	99.609	57	2.72	-	1,371,360
Federal Agency	2,643,547,000	2,643,289,363	2,628,338,919	23.57	99.425	799	1.95	10,380,249	(14,950,444)
Medium-Term Notes	474,688,000	473,431,308	474,099,069	4.22	99.878	901	2.75	979,236	667,761
Money Market Accounts	67,300,000	67,300,000	67,300,000	0.60	100.000	1	2.35	185,885	-
Negotiable CDs	2,382,000,000	2,382,001,509	2,384,371,930	21.24	100.100	128	2.83	29,107,360	2,370,421
Supranationals	923,500,000	924,483,173	921,624,020	8.24	99.797	979	2.10	1,937,859	(2,859,153)
Sweep Fund	11,058,302	11,058,302	11,058,302	0.10	100.000	1	2.02	20,355	-
Treasury Coupon Securities	510,000,000	509,211,303	505,863,610	4.54	99.191	516	1.52	1,987,030	(3,347,693)
Totals for April 2019	11,232,626,018	11,214,199,774	11,199,667,684	100.00	99.708	439	2.44	45,350,300	(14,532,089)
Totals for March 2019	9,708,535,819	9,689,523,453	9,673,900,081	100.00	99.644	409	2.42	44,560,766	(15,623,372)
Change From Prior Month	1,524,090,199	1,524,676,321	1,525,767,603		0.064	30	0.02	789,534	1,091,283
Portfolio Effective Duration	0.87 years								

Return Information	Monthly Return	Annualized	Fiscal Year To Date Return	Annualized	Calendar Year To Date Return	Annualized
Book Value	0.200%	2.439%	1.857%	2.230%	0.795%	2.420%

Notes

Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate to the maturity date.

Weighted Average Maturity (WAM) is average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

Yields for the portfolio are aggregate based on the book value of each security.

Monthly Investment Returns are reported gross of fees. Administration fees since fiscal year 17-18 have averaged approximately 7 basis points per annum.

*All Investments held during the month of April 2019 were in compliance with the Investment Policy dated January 1, 2019.

Source: County of San Diego, Treasurer-Tax Collector.

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APPENDIX F
COUNTY OF SAN DIEGO INVESTMENT POLICY

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**SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND
INVESTMENT POLICY**

January 1, 2019

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. All matters contained in this policy are to be read and applied pursuant to and consistent with state law. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing the Pooled Money Fund (the "Fund") the objectives of this office shall be as follows.

- 1. The primary objective shall be to safeguard the principal of the funds under the County Treasurer's control.**
- 2. The secondary objective shall be to meet the liquidity needs of the participants.**
- 3. The third objective shall be to achieve an investment return on the funds under control of the County Treasurer within the parameters of prudent risk management.**

The Fund is an actively managed portfolio. By this, it is meant that the County Treasurer and his staff will observe, review, and adjust to changing conditions that affect the Fund. This shall be viewed as a full-time responsibility by the County Treasurer and his staff. The authority to execute investment transactions that will affect the Fund will be limited to:

**County Treasurer-Tax Collector
Assistant Treasurer-Tax Collector
Chief Deputy Treasurer
Chief Investment Officer
Investment Officers**

The County Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

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**2018 SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND INVESTMENT POLICY**

The purpose of the County Treasurer's Investment Policy is to implement the legislated parameters of the investment authority of the Fund. As an elected official of the County of San Diego, the County Treasurer must manage public monies in a way that is consistent with its objectives, investment oversight, and sound investment practices and not solely to maximize returns. The basic concept of investment return is based on a risk/reward relationship; the higher the risk, the higher the expected return. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Fund depositors and the public have confidence that public monies are secure. The policy stated below will concern itself with risk management.

1. **SECURITY OF PRINCIPAL POLICY** - The policy issues directed to protecting the principal entrusted to this office are:
 - A. Limiting the Fund's exposure to each type of security.
 - B. Limiting the Fund's exposure to each issuer of debt.
 - C. Determining the minimum credit requirement for each type of security.
2. **LIQUIDITY POLICY** - The policy issues directed to provide the necessary liquidity to the participants are:
 - A. Limiting the length of maturity for securities in the Fund.
 - B. Limiting the Fund's exposure to Moderately Liquid and Illiquid securities.
3. **RETURN POLICY** - The policy issues directed to achieving a return are:
 - A. Attaining a market rate of return while taking into account the investment risk constraints and liquidity needs.
 - B. Limiting a majority of the investments to low-risk securities in anticipation of earning a fair return relative to the risk being taken.
4. **MATURITY POLICY**
 - A. The maximum maturity allowed by the California Government Code is 5 years, with shorter limitations specified for certain types of securities. The guidelines for maturities of investments and duration of the Fund, as established under this Policy, shall be:
 - At least 35% of the Fund maturing within 1 year
 - At least 15% of the Fund maturing within 90 days, and
 - A maximum effective duration of 2.0 years

- B. The Fund will be considered in compliance with the maturity policy if it meets the maturity targets above. In the event that the Fund distribution does not comply with the table above, until such time as the Fund is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Fund. In the event a compliance violation has occurred, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting.

5. **GENERAL STRATEGY**

The County Treasurer will generally use a buy and hold investment strategy, where securities are purchased with the intent of holding them to maturity. The investment staff will update the Treasury Oversight Committee on its asset allocation and investment strategy at its regularly scheduled meetings. Securities may be sold prior to maturity when deemed prudent. Reasons for selling include, but are not limited to:

- A security with declining credit quality
- A financially advantageous sale and replacement of a security that improves the quality, yield, or target duration of the portfolio
- Meeting the liquidity needs of the portfolio
- Portfolio rebalancing to bring the portfolio back into compliance

6. **PROHIBITED SECURITIES**

The California Government Code prohibits a local agency from investing in any of the following derivative notes:

- Inverse Floaters
- Range Notes
- Interest-only strips derived from a pool of mortgages
- Any security that could result in zero interest accrual

7. **CREDIT RATING POLICY**

A. This Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and do not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

B. Minimum credit ratings:

- a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one nationally recognized statistical rating organization (the "NRSRO").
- b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

C. The monitoring of credit ratings consists of the following procedures:

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, the Chief Investment Officer and staff will analyze and evaluate the credit to determine whether to hold or sell the security.
2. In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit requirement, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.
3. The Investment Group shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

8. INTERNAL CONTROLS

- A. The Chief Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be 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.
- B. Accordingly, the Chief Deputy Treasurer shall establish and maintain internal controls that shall address the following points:
 1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.
 2. Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
 3. Custodial Safekeeping - Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not

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insured by the FDIC, shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.
5. Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person.
6. Development of a Wire Transfer Agreement with the Lead Bank or Third-Party Custodian - This agreement should outline the various controls, security provisions, and responsibilities of each party making and receiving wire transfers.
7. A treasury operations manual, as overseen by the Chief Deputy Treasurer, will be reviewed and updated by the treasury staff every two years or on an as needed basis.
9. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an independent review to be conducted annually on a fiscal year basis by an external auditor to determine if the County Treasury is in compliance with the Investment Policy, other internal policies and procedures, and the California Government Code.
10. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in sections 11-26 below.
11. **GOVERNMENT OBLIGATIONS** - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes, and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies and government sponsored enterprises, including:
 - Federal National Mortgage Association (FNMA)
 - Federal Home Loan Bank (FHLB)
 - Federal Farm Credit Bank (FFCB)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Government National Mortgage Corporation (GNMA)
 - Tennessee Valley Authority (TVA)
- A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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- B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category is unlimited.
 - C. Maximum Exposure Per Issuer - The maximum exposure to the Fund for an individual issuer shall be:
 - 1. Treasury - Unlimited
 - 2. Agency - No more than 35% of the Fund value shall be invested in any single issuer.
 - D. Minimum Credit Requirement - None
 - E. Liquidity Category - Liquid
12. **LOCAL AGENCY AND STATE OBLIGATIONS** -These include registered state warrants or treasury notes or bonds of the state of California and registered bonds of any of the other 49 states, 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 the state and bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state of California, 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.
- A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.
 - C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.
 - D. Minimum Credit Requirement - Issuers must be at or above the following ratings:
 - a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.
 - b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.
 - E. Liquidity Category - Moderately Liquid
13. **BANKER'S ACCEPTANCES** - This is a draft or bill of exchange accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the Banker's Acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust

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receipts, and other documents evidencing ownership and insurance of the goods financed. Since their inception in 1914, there has been no known loss of principal to investors holding Banker's Acceptances.

- A. Maximum Maturity - The maximum maturity of a security shall be 180 days from the settlement date.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.
 - C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.
 - D. Minimum Credit Requirement – The rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as “+” or “-”) by at least one NRSRO.
 - E. Liquidity Category – Liquid
14. **COMMERCIAL PAPER** - These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement.
- A. Maximum Maturity - The maximum maturity of a security shall be 270 days from the settlement date.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.
 - C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.
 - D. Minimum Credit Requirements - The Rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as “+” or “-”) by at least one NRSRO.
 - E. Liquidity Category - Liquid
15. **MEDIUM-TERM NOTES (“MTN”)** - These are corporate notes, deposit notes, and bank notes sold by an agent in the open market on a continually offered basis. Issuers include well-recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium-term notes are generally unsecured debt obligations, although some issues come to market on a collateralized or secured basis.
- A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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- B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.
 - C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.
 - D. Minimum Credit Requirements - Issuers must be at or above the following ratings:
 - a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.
 - b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.
 - E. Liquidity Category - Liquid
16. **NEGOTIABLE CERTIFICATES OF DEPOSIT** - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time, and they earn specified or variable rates of interest. Negotiable certificates of deposit ("NCD") differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.
- A. Maximum Maturity
 - 1. The maximum maturity of a NCD security shall be 5 years from the settlement date.
 - 2. The maximum maturity of any FDIC insured CDs, whether directly placed or placed through a private sector entity, shall be 13 months.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.
 - D. Maximum Exposure per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.
 - E. Minimum Credit Requirement – Issuers must be at or above the following ratings:
 - a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO.
 - b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.
 - F. Liquidity Category - Liquid
17. **REPURCHASE AGREEMENTS** - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (the Fund); the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.

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- A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.
 - C. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer shall be 10% of the Fund when the dollar-weighted average maturity is greater than 5 days or 15% of the Fund when the dollar-weighted average maturity is 5 days or less.
 - D. Eligible Broker/Dealers - Broker/Dealers shall sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.
 - E. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be securities authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing from 7 days to 1 year shall be Treasury and Agency obligations.
 - F. Delivery of Collateral - Broker/Dealers shall deliver the underlying securities to the County's safekeeping bank, a mutually agreed-upon third party custodian bank, or a counterparty bank's customer book-entry account. When a third-party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the Fund in accordance with the terms of the repurchase agreement.
 - G. Liquidity Category - Liquid
18. **REVERSE REPURCHASE AGREEMENTS** - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the Fund is the seller of securities and the broker or bank is the investor.

Due to the nature of RRP, the policy regarding this instrument is different from the above RP policy.

- A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.
- B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to RRP and/or securities lending at any one time.
- C. Maximum Exposure Per Broker/Dealer - No more than 10% of the Fund shall be invested in RRP with any one broker/dealer at any one time.

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- D. Purpose of RRP - The uses of RRP shall be to invest the proceeds from the agreement into permissible securities that are in the highest short-term rating category; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.
 - E. Eligible Securities - A RRP may only be entered into with a security authorized in California Government Code 53601 which has been owned and paid for 30 days prior to the settlement of the RRP.
 - F. Eligible Broker/Dealer - Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.
 - G. Liquidity Category - Liquid
19. **SECURITIES LENDING** - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRP and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to 102 % of the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice.
- A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days.
 - B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to securities lending and/or RRP at any one time.
 - C. Maximum Exposure Per Counterparty - No more than 10% of the Fund shall be on loan with any single counterparty at any one time.
 - D. Proceeds shall be invested in securities authorized by California Government Code and this Investment Policy.
20. **COLLATERALIZED CERTIFICATES OF DEPOSIT** - This is the deposit of funds in state or national banks, state or federal savings and loan associations, federal credit unions, or FDIC-insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:
- A. The deposit may not exceed the total of the paid-in capital and surplus of a depository.

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- B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the Fund's deposits. These securities will be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed-upon third party custodian bank.
 - C. The County Treasurer may waive the first \$250,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government. The documents listed below in D will not be required for deposits of \$250,000 or less.
 - D. Each institution that receives Fund deposits must provide the County Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement, and EEO-1 Form.
 - E. Maximum Maturity – The maximum maturity of a collateralized CD shall be 13 months.
 - F. Maximum Exposure of Fund – The maximum exposure to the Fund for this category shall be 5%.
 - G. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.
 - H. Institutions at or above the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "-") by at least one NRSRO may pledge mortgage-based collateral for County deposits.
 - I. Liquidity Category - Illiquid
21. **FDIC & NCUA INSURED DEPOSIT ACCOUNTS** – This is the deposit of funds in a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state per California Government Code Section 53635.8. The deposit of funds will be made under the following conditions:
- A. The deposit of funds may be placed directly with a selected depository institution, not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
 - B. A selected depository may use a private sector entity to help place deposits with one or more commercial bank, savings bank, savings and loan association, or credit union located in the United States.
 - C. The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
 - D. Maximum Maturity - The maximum maturity of an FDIC or NCUA Insured Deposit Account shall be 13 months.

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- E. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 5%.
 - F. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.
 - G. Minimum Credit Requirement - There is no minimum credit requirement for FDIC or NCUA insured deposit accounts whether directly placed or placed through a private sector entity.
 - H. California Government Code Section 53636.8 shall remain in effect until January 1, 2021.
 - I. Liquidity Category - Illiquid
22. **COVERED CALL OPTION/PUT OPTION** - An option is the right to buy or sell a specific security within a specific time period at a specific price.
- A. A covered call is when the County Treasurer sells the option to another party giving them the right to buy an existing security in the Fund at a specific price within a specific time period.
 - B. A put option is when the County Treasurer sells the option to another party giving them the right to sell to the County Treasurer a security at a specific price within a specific time period.
 - C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.
 - D. The County Treasurer will act only as a seller of covered call and put options with the following exception: County Treasurer may buy an option to offset an existing open option position.
 - E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.
 - F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.
 - G. Maximum Maturity - The maximum maturity of a covered call option/put option shall be 90 days.
 - H. Maximum Exposure of Fund - No more than 10% of the Fund may have options written against it at any given time.
 - I. Counterparty Risk - Options shall only be written with primary broker/dealers of the Federal Reserve Bank of New York.

- J. Liquidity Category - Liquid
23. **MONEY MARKET MUTUAL FUND** – These investments consist of shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified portfolio of securities, which are redeemable at their net asset value. The Government Code allows for purchases of many types of mutual funds, but the Fund will limit use to money market mutual funds managed to maintain a stable NAV.
- A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.
 - B. Maximum Exposure Per Fund - The maximum exposure to a single mutual fund shall be 10% of the Fund value.
 - C. Purchase Price - The purchase price of the mutual fund shall not include any commission.
 - D. Minimum Credit Requirement - Mutual fund ratings must be in the highest rating category by at least two NRSROs or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience in managing money market mutual funds and with assets under management in excess of five hundred million dollars.
 - E. Liquidity Category - Liquid
24. **INVESTMENT TRUST OF CALIFORNIA (CalTRUST)** - This is a pooled investment program through the CalTRUST Joint Powers Authority authorized by Government Code Section 53601(p). The Fund shall only invest in products offered through CalTRUST that comply with the California Government Code and all relevant sections of this Investment Policy.
- A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 2.5%, subject to limitations placed upon deposits by CalTRUST.
 - B. Minimum Credit Requirement – CalTRUST fund ratings must be in the highest rating category by at least one NRSRO.
 - C. Liquidity Category - Liquid
25. **PASS-THROUGH SECURITIES** - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates, or consumer receivable-backed bonds.
- A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.
 - B. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.

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- C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.
 - D. Minimum Credit Requirement - The security must be rated "AA" or higher by at least one NRSRO.
 - E. Liquidity Category - Liquid
26. **WHEN-ISSUED SECURITIES** - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.
27. **SUPRANATIONALS** – The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multi-national organizations, including:
- Inter-American Development Bank (IADB)
 - International Bank for Reconstruction and Development (IBRD)
 - International Finance Corporation (IFC)
- A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.
 - B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.
 - C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.
 - D. Minimum Credit Requirement - The security must be rated "AA "or higher by at least one NRSRO.
 - E. Liquidity Category - Liquid
28. **QUALIFIED BROKERS AND DEALERS** - In order to minimize risk in making investments under this Investment Policy, all investments will be made only through qualified dealers.
- A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial Paper and Certificate of Deposit issuers may be considered qualified dealers for direct issuance of their paper.

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- B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application to the County Treasurer.
 - C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.
 - D. Investment securities dealers for Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.
 - E. The dealer is required to have net capital in excess of \$1 million with liquidity lines of \$50 million or more.
 - F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.
 - G. The dealer will be monitored by the Chief Investment Officer and staff to ensure the services the County requires are delivered in a timely and efficient manner.
 - H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.
 - I. A qualified dealer must not have made any political contributions to the County Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, in which case the contributions shall not be in excess of \$250 to each official per election.
 - J. Each dealer, at minimum every three years, or more frequently if requested, will be required to respond to the County's Request for Information (RFI) providing the County with up-to-date financial and investment experience information in order to continue in its role.
29. **DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER** - The State of California gives the Board of Supervisors the ability to delegate investment authority to the County Treasurer for a one-year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.
30. **SAFEKEEPING AUTHORITY**
- A. The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.
 - B. In exercising this safekeeping function, the County Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.

- C. The County Treasurer's Continuity of Operations Plan (COOP) addresses contingency plans in the event that a disaster, natural or otherwise, disrupts normal operations. Contingency plans vary depending upon the severity and expected longevity of the disruption.

- 31. **EXTERNAL OVERSIGHT** - The County Treasurer shall retain an independent third-party investment advisor to provide oversight and compliance monitoring.

The County Treasurer will also retain an NRSRO to provide a rating for the Fund and will have in place an internal system to provide credit and compliance monitoring.

- 32. **COUNTY TREASURY OVERSIGHT COMMITTEE** - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.

- 33. **RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:**

- A. The County Treasury Oversight Committee:

- 1. Gifts and Gratuity Limits: - Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the County Treasurer conducts business.
- 2. Honorarium Limits - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the County Treasurer conducts business.
- 3. Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the County Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokers or dealers, or financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.
- 4. Contributions - A member may not directly or indirectly raise money for a candidate for County Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

- B. The County Treasurer and Designated Employees:

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1. Gifts and Gratuity Limits - The County Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Office.
 2. Honorarium Limits - The County Treasurer and designated employees may not accept any honorarium.
 3. Form 700 "Statement of Economic Interests" - The County Treasurer and designated employees are required to file a Form 700 annually.
34. **REPORTING** - The County Treasurer shall prepare an investment report monthly to be posted on the County Treasurer Tax-Collector's website.
- A. The report will be available to the following officials:
 1. Board of Supervisors
 2. Oversight Committee
 3. Chief Administrative Officer
 4. Auditor & Controller
 5. Pool Participants
 - B. The report will include the following:
 1. A summary of Fund statistics
 2. The type of investment, issuer, maturity date, par value, and dollar amount invested for all securities, investments, and monies held by the Fund
 3. A description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program
 4. Current market value and the source of the valuation as of the date of the report for all securities held by the Fund
 5. Securities lending portfolio, if applicable
 6. Pool purchases, sales, and maturities
 7. Pooled Money Fund cash flow forecast demonstrating the Fund's ability to meet cash flow requirements for the next six months
 8. Statement of compliance with the Investment Policy
35. **COSTS AND EARNINGS APPORTIONMENT**

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Pooled Money Fund Investment Policy

- A. Prior to quarterly interest distribution, investment costs incurred by the County Treasurer will be deducted from the interest earnings of the pool and Dedicated Portfolios based on an equitable distribution formula. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies) and indirect costs (department overhead and external overhead).
 - B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Fund each quarter.
 - C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter-end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the pool's earning rate for the quarter or a proxy TRAns cost.
 - D. The apportionment rate is set approximately ten business days after each calendar quarter end. Apportionments are not paid out by warrants; all earnings are credited to the participant's fund balance.
36. **TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS** - California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.
- A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy are structured to help to ensure that, pursuant to Section 27133 of the California Government Code, the County Treasurer shall be able to find that all proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the Fund.
 - B. The policy for the acceptance of local agency deposits is:
 - 1. The local agency must sign an Investment Management Agreement.
 - 2. The maximum amount of transactions per month shall be 10 per local agency.
 - 3. The local agency must provide cash flows on a quarterly basis indicating projected withdrawals from the Fund.
 - C. Before any deposits for new accounts from Voluntary Participants can be accepted by the County Treasurer, the local agency must perform the following:

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1. Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:
 - a) be signed by an authorized official
 - b) indicate the resolution number and date passed by the Board or governing body,
 - c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Fund,
 - d) bear the seal of the local agency, if the local agency has a seal.
2. Provide wire/ACH transfer instructions for cash withdrawals from the Fund. All withdrawals will be paid by electronic funds transfer.
3. Establish a trust account through the County Auditor and Controller's General Accounting Division.

37. CRITERIA FOR WITHDRAWAL OF MONIES FROM THE FUND BY VOLUNTARY PARTICIPANTS

- A. Before a local agency withdraws monies from the Fund, it must submit a withdrawal request a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the County Treasurer's Office if the withdrawal does not cause the Fund to fall out of compliance with its maturity policy or jeopardize its ability to meet cash flow requirements.
- B. When monies are requested for withdrawal, the County Treasurer's Office must find that the withdrawal will not adversely affect the interests of all other depositors in the Fund.

38. GRANDFATHERED AGENCIES

- A. Grandfathered agencies that use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function in this manner and will be treated as a mandatory participant (assuming the agency continues to make deposits into the Fund).
- B. These agencies can also opt to be treated as Voluntary Participants and elect to withdraw funds in the same fashion as the other Voluntary Participants. However, any agency so opting shall be subject to all restrictions placed upon the other Voluntary Participants.

GLOSSARY OF TERMS

BID - The price offered by a buyer of securities.

CREDIT RATING - The alphanumeric score which provides an assessment of the credit opinion of one of the Nationally Recognized Statistical Rating Organizations for a particular investment or issuing entity.

DEDICATED PORTFOLIO - Any assets, besides those held in the Fund, invested by the County Treasurer on behalf of any San Diego County agency.

DOLLAR-WEIGHTED AVERAGE MATURITY - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION - A measure of the price volatility of a portfolio that reflects an estimate of the projected increase or decrease in the value of a portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every 1.0 percent increase in interest rates, the market value of a portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT - The quarterly interest distribution to the Pool Participants after the actual investment costs incurred by the County Treasurer are deducted from the interest earnings of the Fund.

EFFECTIVE DURATION OR OPTION-ADJUSTED DURATION - The approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve, allowing for the cash flow to change as a result of the change in yield.

GRANDFATHERED AGENCIES- Some fire districts and other agencies that use the County's banking and accounting services.

ILLIQUID – Investments for which 1) the secondary market is non-existent or thinly traded, 2) it is not possible to access funds prior to maturity, or 3) One cannot liquidate at the cost of principal.

ISSUER - The entity identified as the counterparty or obligator related to a security trade.

INVESTMENT GROUP - Group consisting of the County Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

INVESTMENT MANAGEMENT AGREEMENT - An agreement between a voluntary participant and the San Diego County Treasurer-Tax Collector. The agreement addresses the terms and conditions of local agencies' deposits of funds for investment into the Fund.

LIQUID – Term for securities that can be converted to cash quickly.

MODERATELY LIQUID - Securities that can be converted to cash quickly with the potential for minimum loss of principal.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

OFFER - The price at which a holder of a security would be willing to sell the security.

PORTFOLIO VALUE - The total book value of all the securities held in the Fund.

PRUDENT RISK - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

SAFEKEEPING - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SELECTED DEPOSITORY INSTITUTION - A nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in the state of California.

SHORT-TERM - The term used to describe a security when the maturity is one year or less.

VOLUNTARY PARTICIPANTS - Local agencies that are not required to deposit their funds with the County Treasurer.

WHEN-ISSUED SECURITIES - A security traded before it receives final trading authorization, with the investor receiving the certificate/security only after the final approval is granted.

2019 San Diego County Treasurer's
Pooled Money Fund Investment Policy

Appendix A
Approved Broker/Dealers

[Link to approved broker/dealers](#)

APPENDIX B - POLICY GUIDELINES

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum % With One Issuer	Minimum Rating
US Treasury Obligations	5 years	No Limit	No Limit	No Limit
Agency Obligations	5 years	No Limit	35%	No Limit
Local Agency Obligations	5 years	30%	10%	A
Banker's Acceptances	180 days	40%	5%	A-1
Commercial Paper (1)	270 days	40%	10%	A-1
Medium Term Notes	5 years	30%	5%	A
Negotiable Certificate of Deposits	5 years	30%	10%	A-1/A
Repurchase Agreements	1 year	40%	Note (2)	No Limit
Reverse Repurchase Agreements	92 days	20%	10%	No Limit
Collateralized Certificates of Deposit	13 months	5%	5%	No Limit
FDIC & NCUA Insured Deposit Accounts	13 months	5%	5%	No Limit
Money Market Funds	N/A	20%	10%	AAAm
Investment Trust of California (CalTrust)	N/A	2.5%	2.5%	AAAm
Pass-Through Securities	5 years	20%	5%	AA
Supranationals	5 years	30%	10%	AA

(1) *Government Code Section 53635(a) (1-2) specifies percentage limitations for this security type for county investment pools.*

(2) *Maximum exposure per issue – The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RPs with maturities greater than 5 days and 15% of the portfolio for RPs maturing in 5 days or less. The maximum exposure to a single broker/dealer of RPs shall be 10% of the portfolio value for maturities greater than 5 days and 15% of the portfolio value for maturities of 5 days or less.*

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series 2019 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2019 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2019 Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the “Insurer’s Fiscal Agent”) for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer’s Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer’s Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer’s Fiscal Agent on behalf of BAM. The Insurer’s Fiscal Agent is the agent of BAM only, and the Insurer’s Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer’s Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



CALIFORNIA
ENDORSEMENT TO
MUNICIPAL BOND
INSURANCE POLICY
NO.

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer