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PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 15, 2019

NEW ISSUE—FULL BOOK-ENTRY

RATING: Moody's: "Aa1"
(See "MISCELLANEOUS – Rating")

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

\$14,000,000*
UNION ELEMENTARY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2014 General Obligation Bonds, Series E

Dated: Dated Date

Due: September 1, as shown on inside cover

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page but not otherwise defined shall have the meanings assigned thereto herein.

The Union Elementary School District (Santa Clara County, California) Election of 2014 General Obligation Bonds, Series E (the "Bonds"), were authorized at an election of the registered voters of the Union Elementary School District (the "District") held on June 3, 2014, at which the requisite 55% of the persons voting on the proposition voted to authorize the issuance and sale of \$125,000,000 aggregate principal amount of general obligation bonds of the District. The Bonds are being issued to finance the repair, upgrading, acquisition, construction, and equipping of District sites and facilities and to pay the costs of issuing the Bonds.

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes. The Board of Supervisors of Santa Clara County is empowered and obligated to annually levy such *ad valorem* property taxes, without limitation as to rate or amount, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates), for the payment of principal and Maturity Value of and interest on the Bonds when due.

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds, but will instead receive credit balances on the books of their respective nominees.

The Bonds will be issued as current interest bonds (the "Current Interest Bonds") and capital appreciation bonds (the "Capital Appreciation Bonds"). Interest on the Current Interest Bonds accrues from the date of initial delivery and issuance of the Bonds (the "Dated Date"), and is payable semiannually on March 1 and September 1 of each year, commencing March 1, 2020. The Capital Appreciation Bonds are dated the Dated Date and accrete interest from such date, compounded semiannually on March 1 and September 1 of each year, commencing March 1, 2020. The Capital Appreciation Bonds are payable only at maturity (unless earlier redeemed) and will not pay interest on a current basis.

Payments of principal and Maturity Value of and interest on the Bonds will be made by U.S. Bank National Association, as the paying agent, bond registrar and transfer agent for the Bonds (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants (as defined herein) who will remit such payments to the Beneficial Owners of the Bonds.

The Bonds are subject to optional redemption as provided herein. The Bonds are further subject to mandatory sinking fund redemption as provided herein.*

MATURITY SCHEDULE*

(see inside front cover)

*The Bonds are being offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. Certain matters are being passed upon for the Underwriter by Katten Muchin Rosenman LLP, New York, New York. The Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York, on or about _____, 2019.**

WELLS FARGO SECURITIES

Dated: _____, 2019

* Preliminary, subject to change.

MATURITY SCHEDULE*

\$ _____
UNION ELEMENTARY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2014 General Obligation Bonds, Series E

Base CUSIP⁽¹⁾: 906573

\$ _____ **Current Interest Serial Bonds**

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP⁽¹⁾ Suffix
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\$ _____ - ____ % **Current Interest Term Bonds** due September 1, 20__; Yield: ____ %; CUSIP⁽¹⁾ Suffix: ____

\$ _____ **Capital Appreciation Serial Bonds**

Maturity (September 1)	Denominational Amount	Accretion Rate	Yield	Maturity Value	CUSIP⁽¹⁾ Suffix
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\$ _____ **Capital Appreciation Term Bonds**

Maturity (September 1)	Denominational Amount	Accretion Rate	Yield	Maturity Value	CUSIP⁽¹⁾ Suffix
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* Preliminary, subject to change.

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the Underwriter, the Municipal Advisor or the District is responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Municipal Advisor or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

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

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN SECURITIES DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The District maintains a website. However, the information presented on the District’s website is not incorporated into this Official Statement by any reference, and should not be relied upon in making investment decisions with respect to the Bonds.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC rule 15c2-12.

UNION ELEMENTARY SCHOOL DISTRICT

Board of Trustees

Jennifer Petroff, *President*
Thomas E. Rossmeissl, *Vice President*
Doug Evans, *Clerk*
Sheila Billings, *Member*
Vickie Brown, *Member*

District Administration

Denise Coleman, *Superintendent*
Rita Sohal, *Assistant Superintendent of Business Services*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
San Francisco, California

Municipal Advisor

Piper Jaffray & Co.
El Segundo, California

Paying Agent, Registrar, and Transfer Agent

U.S. Bank National Association
San Francisco, California

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\$14,000,000*
UNION ELEMENTARY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2014 General Obligation Bonds, Series E

INTRODUCTION

This Official Statement, which includes the cover page, inside cover page and appendices hereto, provides information in connection with the sale of Union Elementary School District (Santa Clara County, California) Election of 2014 General Obligation Bonds, Series E (the “Bonds”).

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

The District

The Union Elementary School District (the “District”) was established as an elementary school district in 1863 and includes territory in the Cities of San Jose and Los Gatos, California and an unincorporated area of Santa Clara County, California (the “County”). The District covers approximately eight square miles and operates six elementary schools and two middle schools. The District has budgeted an average daily attendance (“ADA”) of 5,855 students in fiscal year 2019-20. For fiscal year 2018-19, the District had an assessed valuation of \$9,890,602,797.

The District is governed by a five-member Board of Trustees (the “Board”), each member of which is elected to a four-year term. Elections for positions on the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District’s other key personnel. Denise Coleman is the District’s current Superintendent.

See “UNION ELEMENTARY SCHOOL DISTRICT” and “DISTRICT FINANCIAL INFORMATION” herein for information regarding the District generally and “TAX BASE FOR REPAYMENT OF BONDS” herein for information regarding the District’s assessed valuation. The audited financial statements of the District for fiscal year ending June 30, 2018 are attached hereto as APPENDIX B, and should be read in their entirety.

Purpose of the Bonds

The Bonds are being issued to finance the repair, upgrading, acquisition, construction, and equipping of District sites and facilities and to pay the costs of issuing the Bonds. See “THE BONDS – Application and Investment of Bond Proceeds” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

* Preliminary, subject to change.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to certain provisions of the Government Code of the State of California and the Constitution of the State of California, and a resolution adopted by the Board on June 10, 2019 (the “Resolution”). See “THE BONDS – Authority for Issuance” herein.

Sources of Payment for the Bonds

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

Description of the Bonds

Form and Registration. The Bonds will be issued in fully registered book-entry form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. See “THE BONDS – General Provisions” and “THE BONDS – Book-Entry Only System” herein. Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Bonds purchased, but will instead receive credit balances on the books of their respective nominees. In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution. See “THE BONDS – Discontinuation of Book-Entry Only System; Payment to Beneficial Owners” herein.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the “Owners,” “Bond Owners” or “Holders” of the Bonds (other than under the caption “TAX MATTERS” herein and in APPENDIX A attached hereto) will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

Current Interest and Capital Appreciation Bonds. The Bonds will be issued as current interest bonds (the “Current Interest Bonds”) and capital appreciation bonds (the “Capital Appreciation Bonds”).

The Current Interest Bonds will bear periodic interest as further described herein. The Capital Appreciation Bonds are payable only at maturity (unless earlier redeemed) and will not bear interest on a current basis. The maturity value of each Capital Appreciation Bond is equal to its Accreted Value (defined herein) upon the maturity thereof (the “Maturity Value”), comprising its initial principal amount (the “Denominational Amount”) and the interest accreting thereon between the Dated Date (defined herein) and its respective maturity date.

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount or Maturity Value, as applicable, or any integral multiple thereof (except for one odd denomination of Capital Appreciation Bonds, if necessary).

Redemption.* Certain of the Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as further described herein. See “THE BONDS – Redemption” herein.

* Preliminary, subject to change.

Payments. The Bonds will be dated as of the date of their initial execution and issuance (the “Dated Date”). Interest on the Current Interest Bonds accrues from the Dated Date, and is payable semiannually on each March 1 and September 1 (each a “Bond Payment Date”), commencing March 1, 2020. Principal of the Current Interest Bonds is payable on September 1 in the amounts and years as set forth on the inside cover page hereof.

The Capital Appreciation Bonds will accrete in value from their Denominational Amounts on the Dated Date to their respective Maturity Values, at the Accretion Rates (defined herein) per annum set forth on the inside cover page hereof, compounded semiannually on March 1 and September 1 of each year, commencing March 1, 2020. The Capital Appreciation Bonds are payable only at maturity (unless earlier redeemed) according to the amounts set forth in the Accreted Values table as shown in APPENDIX D hereto.

Payments of the principal and Accreted Value of and interest on the Bonds will be made by U.S. Bank National Association, as the designated paying agent, registrar and transfer agent for the Bonds (the “Paying Agent”), to DTC for subsequent disbursement through DTC Participants (as defined herein) to the Beneficial Owners of the Bonds.

Tax Matters

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

Offering and Delivery of the Bonds

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

Continuing Disclosure

The District will covenant for the benefit of Owners and Beneficial Owners to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain listed events in compliance with Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”). These covenants have been made in order to assist the Underwriter (defined herein) in complying with the Rule. The specific nature of the information to be made available and of the notices of listed events required to be provided are summarized in APPENDIX C attached hereto.

Bond Owner’s Risks

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes which may be levied on all taxable property in the District, without limitation as to rate or

* Preliminary, subject to change.

amount (except with respect to certain personal property which is taxable at limited rates). For more complete information regarding the taxation of property within the District, see "TAX BASE FOR REPAYMENT OF BONDS" herein.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. Piper Jaffray & Co., El Segundo, California, is acting as municipal advisor to the District with respect to the Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation and Piper Jaffray & Co. will receive compensation from the District contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the Underwriter by Katten Muchin Rosenman LLP, New York, New York. U.S. Bank National Association, San Francisco, California, has been appointed as Paying Agent for the Bonds.

Forward Looking Statements

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Union Elementary School District, 5175 Union Avenue, San Jose, California 95124, telephone: (408) 377-8010. The District may impose a charge for copying, mailing and handling.

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

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

provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each such documents, statutes and constitutional provisions.

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

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Resolution.

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, commencing with Section 53506 *et seq.*, as amended, Article XIII A of the State Constitution and pursuant to the Resolution. The District received authorization at an election held on June 3, 2014 by more than fifty-five percent of the votes cast by eligible voters within the District to issue \$125,000,000 aggregate principal amount of general obligation bonds (the “2014 Authorization”). On January 29, 2015, the District concurrently caused the issuance of its Election of 2014 General Obligation Bonds, Series A (the “2014 Series A Bonds”) in the aggregate principal amount of \$22,280,000 and its Election of 2014 General Obligation Bonds, Series B (the “2014 Series B Bonds”) in the aggregate principal amount of \$8,100,000. On April 12, 2017, the District caused the issuance of its Election of 2014 General Obligation Bonds, Series C (the “2014 Series C Bonds”) in the aggregate principal amount of \$29,275,000. On September 6, 2017, the District concurrently caused the issuance of its Election of 2014 General Obligation Bonds, Series C-1 (Delayed Delivery) (the “2014 Series C-1 Bonds”) in the aggregate principal amount of \$1,225,000 and its Election of 2014 General Obligation Bonds, Series D (Delayed Delivery) (the “2014 Series D Bonds”) in the aggregate principal amount of \$4,500,000. The Bonds are the sixth issuance of bonds pursuant to the 2014 Authorization, and following the issuance thereof, \$45,620,000* of the 2014 Authorization will remain unissued.

Security and Sources of Payment

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy such *ad valorem* property taxes, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), for the payment of principal and Maturity Value of and interest on the Bonds when due.

Such *ad valorem* property taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal and Maturity Value of and interest on the Bonds when due. The levy may include an allowance for an annual reserve, established for the purpose of avoiding fluctuating tax levies. The County, however, is not obligated to

* Preliminary, subject to change.

establish or maintain such a reserve for the Bonds, and the District can make no representation that such a reserve will be established by the County or that such a reserve, if previously established by the County, will be maintained in the future. Such taxes, when collected, will be placed by the County in the Debt Service Fund (defined herein) established by the Resolution, which fund is required to be segregated and maintained by the County and which is designated for the payment of the principal and Maturity Value of the Bonds and interest thereon when due, and for no other purpose. Pursuant to the Resolution, the District has pledged funds on deposit in the Debt Service Fund to the payment of the Bonds. Although the County is obligated to levy *ad valorem* property taxes for the payment of the Bonds as described above, and will maintain the Debt Service Fund and the Building Fund (defined herein), the Bonds are not a debt of the County.

Moneys in the Debt Service Fund, to the extent necessary to pay the principal and Maturity Value of and interest on the Bonds as the same become due and payable, will be transferred by the County to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal, Maturity Value, and interest to its DTC Participants (as defined herein) for subsequent disbursement to the respective Beneficial Owners of such Bonds.

The amount of the annual *ad valorem* property taxes levied by the County to repay the Bonds as described above will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service due on the Bonds and the assessed value of taxable property in the District may cause the annual tax rates to fluctuate. Economic and other factors beyond the District's control, such as general market decline in real property values, disruption in financial markets that may reduce the availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, fire, flood, drought or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the respective annual tax rates. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution" and "TAX BASE FOR REPAYMENT OF BONDS" herein.

Statutory Lien

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

This statutory lien, by its terms, secures not only the Bonds, but also any other bonds of the District issued after January 1, 2016 and payable, as to both principal and interest, from the proceeds of *ad valorem* property taxes that may be levied pursuant to paragraphs (2) and (3) of subdivision (b) of Section 1 of Article XIII A of the State Constitution. The statutory lien provision does not specify the relative priority of obligations so secured or a method of allocation in the event that the revenues received

pursuant to the levy and collection of such *ad valorem* property taxes are insufficient to pay all amounts then due and owing that are secured by the statutory lien.

General Provisions

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Beneficial Owners will not receive physical certificates representing their interests in the Bonds, but will instead receive credit balances on the books of their respective nominees.

Current Interest Bonds. Interest on the Current Interest Bonds accrues from the Dated Date, and is payable on each Bond Payment Date, commencing March 1, 2020. Interest on the Current Interest Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Current Interest Bond will bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Bond Payment Date to and including such Bond Payment Date, in which event it will bear interest from such Bond Payment Date, or unless it is authenticated on or before February 15, 2020, in which event it will bear interest from the Dated Date. The Current Interest Bonds are issuable in denominations of \$5,000 principal amount, or any integral multiple thereof, and mature on September 1, in the years and amounts set forth on the inside cover page hereof.

Capital Appreciation Bonds. Interest on each Capital Appreciation Bond is represented by the amount each such Bond accretes in value from its respective Denominational Amount on the Dated Date to the date for which the Accreted Value is calculated. The value of a Capital Appreciation Bond as of any date (the “Accreted Value”) is calculated by discounting, on a 30-day month, 360-day year basis, its Maturity Value on the basis of a constant rate (the “Accretion Rate”) compounded semiannually on March 1 and September 1 of each year to the date for which an Accreted Value is calculated, and if the date for which the Accreted Value is calculated is between March 1 and September 1, by pro-rating such Accreted Values to the closest prior or subsequent March 1 and September 1.

The Capital Appreciation Bonds will not pay interest on a periodic basis. The Capital Appreciation Bonds accrete in value from their Dated Date at the Accretion Rates per annum set forth on the inside cover page hereof, compounded semiannually on March 1 and September 1 of each year, commencing March 1, 2020. The Maturity Value of a Capital Appreciation Bond is equal to the Accreted Value thereof at its maturity date.

See also the maturity schedule on the inside cover page hereof, “—Annual Debt Service” herein, and “APPENDIX D – ACCRETED VALUES TABLE” attached hereto.

Payments. Payment of interest on any Current Interest Bond on any Bond Payment Date will be made to the person appearing on the registration books of the Paying Agent as the registered Owner thereof as of the 15th day of the month immediately preceding such Bond Payment Date (the “Record Date”), such interest to be paid by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date. The principal and Accreted Value of and redemption premiums, if any, payable on the Bonds will be payable upon maturity upon surrender at the designated office of the Paying Agent. The principal and Accreted Value of, and interest, and redemption premiums, if any, on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. So long as the Bonds are held in the book-entry system of DTC, all payments of principal and Accreted

Value of and interest on the Bonds will be made by the Paying Agent to Cede & Co. (as a nominee of DTC), as the registered Owner of the Bonds.

Annual Debt Service

The following table shows the annual debt service requirements of the District for the Bonds (assuming no optional redemptions).

<u>Year Ending September 1</u>	<u>Current Interest Bonds</u>		<u>Capital Appreciation Bonds</u>		<u>Total Annual Debt Service</u>
	<u>Annual Principal Payment</u>	<u>Annual Interest Payment⁽¹⁾</u>	<u>Annual Principal Payment⁽²⁾</u>	<u>Accreted Interest Payment⁽²⁾</u>	

Total

⁽¹⁾ Interest payments on the Current Interest Bonds will be made semiannually on March 1 and September 1 of each year, commencing March 1, 2020.

⁽²⁾ The Capital Appreciation Bonds are payable only at maturity (unless earlier redeemed) on September 1 of the years indicated on the inside cover page hereof, and interest on such Capital Appreciation Bonds is compounded semiannually on March 1 and September 1, commencing March 1, 2020.

See “UNION ELEMENTARY SCHOOL DISTRICT – District Debt Structure – General Obligation Bonds” herein for a schedule of the combined debt service requirements for all of the District’s outstanding general obligation bonds.

Application and Investment of Bond Proceeds

The Bonds are being issued to finance the repair, upgrading, acquisition, construction, and equipping of District sites and facilities and to pay the costs of issuing the Bonds. The net proceeds from the sale of the Bonds will be paid to the County to the credit of the “Union Elementary School District Election of 2014 General Obligation Bonds, Series E Building Fund” (the “Building Fund”), and will be applied solely for the purposes for which the Bonds are being issued. Interest earnings in the Building Fund will be retained therein. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued, upon written notice from the District, will be transferred to the Debt Service Fund and applied to the payment of the principal and Maturity Value of and interest on the Bonds.

Any premium received by the County from the sale of the Bonds, as well as *ad valorem* property taxes levied by the County for the payment of the Bonds when collected, are required to be held separate and apart in the fund created by the Resolution and designated as the “Union Elementary School District Election of 2014 General Obligation Bonds, Series E Debt Service Fund” (the “Debt Service Fund”) for the Bonds and used only for payment of principal and Maturity Value of and interest on the Bonds. Any interest earnings on moneys held in the Debt Service Fund will be retained therein. If, after all of the Bonds have been redeemed or paid and otherwise cancelled, there are moneys remaining in the Debt Service Fund, said moneys will be transferred to the general fund of the District as provided and permitted by law.

Moneys in the Building Fund and Debt Service Fund will be invested through the County Investment Pool. See “APPENDIX F – SANTA CLARA COUNTY INVESTMENT POOL” herein.

Redemption

Optional Redemption.* The Current Interest Bonds maturing on or before September 1, 20__ are not subject to redemption prior to their respective stated maturity dates. The Current Interest Bonds maturing on and after September 1, 20__ are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part, on any date on or after September 1, 20__ at a redemption price equal to the principal amount of the Current Interest Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium.

The Capital Appreciation Bonds maturing on or before September 1, 20__ are not subject to redemption prior to their respective stated maturity dates. The Capital Appreciation Bonds maturing on and after September 1, 20__ are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part, on any date on or after September 1, 20__ at a redemption price equal to the Accreted Value of such Capital Appreciation Bonds to be redeemed as of the date set for such redemption, without premium.

* Preliminary, subject to change.

Mandatory Redemption.* The Current Interest Bonds maturing on September 1, 20__ (the “20__ Term Bonds”), are subject to redemption prior to maturity from mandatory sinking fund payments on September 1 of each year, on and after September 1, 20__, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amount of such 20__ Term Bonds to be so redeemed, the dates therefor, and the final payment date are as indicated in the following table:

<u>Year Ending September 1</u>	<u>Principal To Be Redeemed</u>
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⁽¹⁾ Maturity.

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

The Capital Appreciation Bonds maturing on September 1, 20__ (the “20__ Term Bonds”), are subject to redemption prior to maturity from mandatory sinking fund payments on September 1 of each year, on and after September 1, 20__, at a redemption price equal to the Accreted Value thereof as of the date fixed for redemption, without premium. The Accreted Value represented by such 20__ Term Bonds to be so redeemed and the redemption dates therefor, and the final Accreted Value payment date is as indicated in the following table:

<u>Year Ending September 1</u>	<u>Principal To Be Redeemed</u>
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⁽¹⁾ Maturity.

In the event that a portion of the 20__ Term Bonds shown above is optionally redeemed prior to maturity, the remaining mandatory sinking fund payments with respect thereto shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000 Maturity Value, in respect of the portion of such 20__ Term Bonds optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made for the optional redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the District, will select Bonds for redemption as so directed and if not directed, in inverse order of maturity. Within a maturity, the Paying Agent will select Bonds for redemption as directed by the

* Preliminary, subject to change.

District and, if not so directed, by lot. Redemption by lot will be in such manner as the Paying Agent will determine; provided, however, that with respect to redemption by lot, the portion of any Bond to be redeemed in part will be in the principal amount or Maturity Value of \$5,000, as applicable, or any integral multiple thereof.

Redemption Notice. When redemption is authorized or required pursuant to the Resolution, the Paying Agent, upon written instruction from the District, will give notice (a “Redemption Notice”) of the redemption of the Bonds. Each Redemption Notice will specify (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the Bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part.

The Paying Agent will take the following actions with respect to each such Redemption Notice: (a) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given to the respective Owners of Bonds designated for redemption by registered or certified mail, postage prepaid, at their addresses appearing on the bond register; (b) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given by registered or certified mail, postage prepaid, telephonically confirmed facsimile transmission, or overnight delivery service, to the Securities Depository; (c) at least 20 but not more than 45 days prior to the redemption date, such Redemption Notice will be given by registered or certified mail, postage prepaid, or overnight delivery service, to one of the Information Services; and (d) provide a Redemption Notice to such other persons as may be required pursuant to the Continuing Disclosure Certificate.

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System; or, such other services providing information with respect to called municipal obligations as the District may specify in writing to the Paying Agent or as the Paying Agent may select.

“Securities Depository” means The Depository Trust Company, 55 Water Street, New York, New York 10041.

A certificate of the Paying Agent or the District that a Redemption Notice has been given as provided in the Resolution will be conclusive as against all parties. Neither failure to receive 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 Bonds. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds will bear or include the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Payment of Redeemed Bonds. When a Redemption Notice has been given substantially as described above, and, when the amount necessary for the redemption of the Bonds called for redemption (principal, Accreted Value, interest, and premium, if any) is irrevocably set aside in trust for that purpose, as described in “—Defeasance” herein, the Bonds designated for redemption in such notice will become due and payable on the date fixed for redemption thereof and upon presentation and surrender of said Bonds at the place specified in the Redemption Notice, said Bonds will be redeemed and paid at the

redemption price out of such funds. All unpaid interest payable at or prior to the redemption date will continue to be payable to the respective Owners, but without interest thereon.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will authenticate and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in Transfer Amount (which, with respect to any outstanding Current Interest Bonds, means the principal amount, and with respect to any outstanding Capital Appreciation Bond, means the Maturity Value) to the unredeemed portion of the Bond surrendered. Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the County and the District will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Redemption Notice. If on the applicable designated redemption date, money for the redemption of the Bonds to be redeemed, together with interest to such redemption date, is held by an independent escrow agent selected by the District so as to be available therefor on such redemption date as described in the Resolution and in “—Defeasance” herein, and if a Redemption Notice thereof will have been given substantially as described above, then from and after such redemption date, interest on the Bonds to be redeemed will cease to accrue or accrete and become payable. All money held for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed.

Rescission of Redemption Notice. With respect to any Redemption Notice in connection with the optional redemption of Bonds (or portions thereof) as described above, unless upon the giving of such notice such Bonds or portions thereof shall be deemed to have been defeased as described in “—Defeasance” herein, such Redemption Notice will state that such redemption will be conditional upon the receipt by an independent escrow agent selected by the District, on or prior to the date fixed for such redemption, of the moneys necessary and sufficient to pay the principal, Accreted Value, premium, if any, and interest on, such Bonds (or portions thereof) to be redeemed, and that if such moneys shall not have been so received said Redemption Notice will be of no force and effect, no portion of the Bonds will be subject to redemption on such date and such Bonds will not be required to be redeemed on such date. In the event that such Redemption Notice contains such a condition and such moneys are not so received, the redemption will not be made and the Paying Agent will within a reasonable time thereafter (but in no event later than the date originally set for redemption) give notice to the persons to whom and in the manner in which the Redemption Notice was given that such moneys were not so received. In addition, the District will have the right to rescind any Redemption Notice, by written notice to the Paying Agent, on or prior to the date fixed for such redemption. The Paying Agent will distribute a notice of the rescission of such Redemption Notice in the same manner as such notice was originally provided.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity pursuant to the provisions of the 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 moneys shall be held irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and, accrued interest thereon to the date fixed for redemption, all as provided in the Resolution, then such Bonds will no longer be deemed outstanding and will be surrendered to the Paying Agent for cancellation.

Book-Entry Only System

The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriter takes any responsibility for the accuracy or completeness thereof. The District and the Underwriter cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants (as defined herein) (collectively, the "DTC Participants") will distribute to the Beneficial Owners (a) payments of principal and maturity value of, interest on, or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such bond, and will be deposited with DTC.

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 DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. However, the information presented on such website is not incorporated herein by any reference to such website.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of

Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds or distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 or distributions 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.

DTC may discontinue providing its services as depository with respect to the Bonds 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, Bond certificates are required to be printed and delivered. 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, Bond certificates will be printed and delivered to DTC.

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.

So long as Cede & Co. is the registered Owner of the Bonds, as nominee of DTC, references herein to the "Owners," "Bond Owners" or "Holders" of the Bonds (other than under the caption "TAX MATTERS" herein and "APPENDIX A – FORM OF OPINION OF BOND COUNSEL" attached hereto) will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain at its designated office all books and records necessary for the registration, exchange and transfer of such Bonds, which will at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register, exchange or transfer or cause to be registered, exchanged or transferred, on said books, Bonds as provided in the Resolution.

In the event that the book-entry only system as described herein is no longer used with respect to the Bonds, the following provisions will govern the payment, registration, transfer, and exchange of the Bonds.

The principal and Maturity Value of, premium and interest on the Bonds upon the redemption thereof will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the designated trust office of the Paying Agent. Interest on the Bonds will be paid by the Paying Agent by wire to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of like tenor, maturity and Transfer Amount (which with respect to any outstanding Bonds means the principal amount or Maturity Value thereof, as applicable) upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the registered Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond Register by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. Upon exchange or transfer, the Paying Agent shall register, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the Transfer Amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to (a) issue or transfer any Bonds during a period beginning with the opening of business on the 16th day next preceding either any Bond Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Bond Payment Date or any day on which the applicable Redemption Notice is given or (b) transfer any Bonds which have been selected or called for redemption in whole or in part.

Defeasance

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

(a) Cash: by irrevocably depositing with an independent escrow agent selected by the District an amount of cash which, together with amounts transferred from the Debt Service Fund (if any), is sufficient to pay all such Bonds outstanding and designated for defeasance (including all principal and Accreted Value thereof, interest thereon and redemption premiums, if any) at or before their maturity date; or

(b) Government Obligations: by irrevocably depositing with an independent escrow agent selected by the District noncallable Government Obligations together with cash, if required, and moneys transferred from the Debt Service Fund (if any), in such amount as will, together with the interest to accrue thereon, in the opinion of an independent certified public accountant, be fully sufficient to pay and discharge all Bonds outstanding and designated for defeasance (including all principal and Accreted Value thereof, interest thereon and redemption premiums, if any) at or before their maturity date;

then, notwithstanding that any of such Bonds shall not have been surrendered for payment, all obligations of the District with respect to all such designated outstanding Bonds shall cease and terminate, except only the obligation of the independent escrow agent selected by the District to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the Owners of such designated Bonds not so surrendered and paid all sums due with respect thereto.

“Government Obligations” means direct and general obligations of the United States of America, obligations that are unconditionally guaranteed as to principal and interest by the United States of America (which may consist of obligations of the Resolution Funding Corporation that constitute interest strips), and obligations secured or otherwise guaranteed, directly or indirectly, as to principal and interest by a pledge of the full faith and credit of the United States of America. In the case of direct and general obligations of the United States of America, Government Obligations shall include evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances where (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) or Moody’s Investors Service (“Moody’s”) at least as high as direct and general obligations of the United States of America.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Bonds
[Net] Original Issue Premium

Total Sources

Uses of Funds

Building Fund
Debt Service Fund
Underwriter's Discount
Costs of Issuance⁽¹⁾

Total Uses

⁽¹⁾ Represents all costs of issuance to be paid from proceeds of the Bonds, including, but not limited to, municipal advisory and legal fees, printing costs, the costs and fees of the Paying Agent, rating agency fees, and other costs of issuance of the Bonds.

TAX BASE FOR REPAYMENT OF BONDS

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

Ad Valorem Property Taxation

District property taxes are assessed and collected by the County at the same time and on the same tax rolls as County, city and special district property taxes. Assessed valuations are the same for both the District and the County's taxing purposes.

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property is assessed on the "unsecured roll." Unsecured property comprises all property not attached to land, such as personal property or business property. Boats and airplanes are examples of unsecured property. A supplemental roll is developed when property changes hands or new construction is completed. The County levies and collects all property taxes for property falling within the County's taxing boundaries.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes on the secured roll are payable in two installments, due November 1 and February 1 of the calendar year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment plus any additional amount

determined by the Tax Collector of the County (the “Tax Collector”). After the second installment of taxes on the secured roll is delinquent, the tax collector shall collect a cost of \$10 for preparing the delinquent tax records and giving notice of delinquency. Property on the secured roll with delinquent taxes is declared tax-defaulted on July 1 of the calendar year. Such property may thereafter be redeemed, until the right of redemption is terminated, by payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Tax Collector.

Property taxes on the unsecured roll as of July 31 become delinquent if they are not paid by August 31 and are thereafter subject to a delinquent penalty of 10%. Taxes added to the unsecured tax roll after July 31, if unpaid are delinquent and subject to a penalty of 10% on the last day of the month succeeding the month of enrollment. In the case of unsecured property taxes, an additional penalty of 1.5% per month begins to accrue when such taxes remain unpaid on the last day of the second month after the 10% penalty attaches. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the assessee; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on specific property of the assessee; (3) filing a certificate of delinquency for record in the county recorder’s office in order to obtain a lien on specified property of the assessee; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. See also “– Tax Levies, Collections and Delinquencies” herein.

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

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

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies, including school districts, will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

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Assessed Valuations

Property within the District had a total assessed valuation for fiscal year 2018-19 of \$9,890,602,797. The following table shows a history of assessed valuations in the District from fiscal years 2009-10 through 2018-19.

ASSESSED VALUATIONS Fiscal Years 2009-10 through 2018-19 Union Elementary School District

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2009-10	\$6,454,444,352	--	\$84,614,861	\$6,539,059,213
2010-11	6,274,850,303	--	73,192,063	6,348,042,366
2011-12	6,481,104,545	--	74,331,551	6,555,436,096
2012-13	6,618,622,241	--	80,278,361	6,698,900,602
2013-14	7,215,149,188	--	89,270,287	7,304,419,475
2014-15	7,638,105,271	--	72,359,823	7,710,465,094
2015-16	8,093,119,309	--	64,010,836	8,157,130,145
2016-17	8,651,613,405	--	80,373,731	8,731,987,136
2017-18	9,194,015,937	--	73,525,555	9,267,541,492
2018-19	9,828,333,721	--	62,269,076	9,890,602,797

Source: California Municipal Statistics, Inc.

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

Appeals and Adjustments of Assessed Valuations. Under State law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization (the "SBE"), with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed.

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

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as

earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

Whether resulting from taxpayer appeals or county assessor reductions, adjustments to assessed value are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIII A. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” herein.

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

Assembly Bill 102. On June 27, 2017, the Governor of the State (the “Governor”) signed into law Assembly Bill 102 (“AB 102”). AB 102 restructured the functions of the SBE and created two new separate agencies: (i) the California Department of Tax and Fee Administration, and (ii) the Office of Tax Appeals. Under AB 102, the California Department of Tax and Fee Administration took over programs previously in the SBE Property Tax Department, such as the Tax Area Services Section, which is responsible for maintaining all property tax-rate area maps and for maintaining special revenue district boundaries. Under AB 102, the SBE continues to perform the duties assigned by the State Constitution related to property taxes, however, effective January 1, 2018, the SBE will only hear appeals related to the programs that it constitutionally administers and the Office of Tax Appeals will hear appeals on all other taxes and fee matters, such as sales and use tax and other special taxes and fees. AB 102 obligates the Office of Tax Appeals to adopt regulations as necessary to carry out its duties, powers, and responsibilities. No assurances can be given as to the effect of such regulations on the appeals process or on the assessed valuation of property within the District.

Assessed Valuation by Jurisdiction. The following table shows an analysis of the distribution of taxable property in the District by jurisdiction, in terms of its fiscal year 2018-19 assessed valuation.

ASSESSED VALUATION BY JURISDICTION
Fiscal Year 2018-19
Union Elementary School District

<u>Jurisdiction:</u>	<u>Assessed Valuation in District</u>	<u>% of District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in District</u>
Town of Los Gatos	\$2,056,066,593	20.79%	\$13,154,669,768	15.63%
City of San Jose	7,167,647,342	72.47	181,926,524,174	3.94
Unincorporated Santa Clara County	<u>666,888,862</u>	<u>6.74</u>	17,968,471,412	3.71
Total District	\$9,890,602,797	100.00%		
Santa Clara County	\$9,890,602,797	100.00%	\$482,861,280,340	2.05%

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table shows the distribution of taxable property within the District by principal use, as measured by assessed valuation and parcels in fiscal year 2018-19.

ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2018-19
Union Elementary School District

	2018-19	% of	No. of	% of
<u>Non-Residential:</u>	<u>Assessed Valuation⁽¹⁾</u>	<u>Total</u>	<u>Parcels</u>	<u>Total</u>
Commercial/Office	\$399,737,738	4.07%	113	0.79%
Industrial	228,409,103	2.32	4	0.03
Recreational – Athletic Club	7,892,487	0.08	1	0.01
Government/Social/Institutional	63,416,596	0.65	52	0.36
Miscellaneous/Water Company	<u>41,205,240</u>	<u>0.42</u>	<u>9</u>	<u>0.06</u>
Subtotal Non-Residential	\$740,661,164	7.54%	179	1.25%
<u>Residential:</u>				
Single Family Residence	\$8,262,170,901	84.06%	12,697	88.98%
Condominium/Townhouse	466,724,109	4.75	918	6.43
2-4 Residential Units	229,403,207	2.33	344	2.41
5+ Residential Units/Apartments	<u>93,936,067</u>	<u>0.96</u>	<u>34</u>	<u>0.24</u>
Subtotal Residential	\$9,052,234,284	92.10%	13,993	98.07%
Vacant Parcels	\$35,438,273	0.36%	97	0.68%
Total	\$9,828,333,721	100.00%	14,269	100.00%

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

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Assessed Valuation of Single Family Homes. The following table shows the distribution of single family homes within the District among various fiscal year 2018-19 assessed valuation ranges, as well as the average and median assessed valuation of single family homes within the District.

ASSESSED VALUATION OF SINGLE FAMILY HOMES

Fiscal Year 2018-19

Union Elementary School District

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	12,697	\$8,262,170,901	\$650,718	\$599,469

2018-18 Assessed Valuation	No. of Parcels⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	1,424	11.215%	11.215%	\$104,603,013	1.266%	1.266%
100,000 - 199,999	1,131	8.908	20.123	160,467,427	1.942	3.208
200,000 - 299,999	870	6.852	26.975	218,075,098	2.639	5.848
300,000 - 399,999	1,067	8.404	35.378	372,946,148	4.514	10.362
400,000 - 499,999	975	7.679	43.057	437,752,350	5.298	15.660
500,000 - 599,999	892	7.025	50.083	492,997,899	5.967	21.627
600,000 - 699,999	968	7.624	57.707	629,934,628	7.624	29.251
700,000 - 799,999	1,040	8.191	65.897	780,118,625	9.442	38.693
800,000 - 899,999	1,068	8.411	74.309	907,371,512	10.982	49.675
900,000 - 999,999	865	6.813	81.122	816,679,331	9.885	59.560
1,000,000 - 1,099,999	549	4.324	85.445	575,090,682	6.961	66.520
1,100,000 - 1,199,999	462	3.639	89.084	530,801,106	6.424	72.945
1,200,000 - 1,299,999	361	2.843	91.927	450,560,120	5.453	78.398
1,300,000 - 1,399,999	299	2.355	94.282	402,268,135	4.869	83.267
1,400,000 - 1,499,999	173	1.363	95.645	249,077,943	3.015	86.282
1,500,000 - 1,599,999	124	0.977	96.621	192,139,809	2.326	88.607
1,600,000 - 1,699,999	108	0.851	97.472	178,402,774	2.159	90.767
1,700,000 - 1,799,999	59	0.465	97.937	103,163,191	1.249	92.015
1,800,000 - 1,899,999	49	0.386	98.322	90,843,049	1.100	93.115
1,900,000 - 1,999,999	37	0.291	98.614	71,780,818	0.869	93.983
2,000,000 and greater	176	1.386	100.000	497,097,243	6.017	100.000
Total	12,697	100.000%		\$8,262,170,901	100.000%	

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

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Tax Levies, Collections and Delinquencies

The following table shows secured *ad valorem* property tax levies within the District, and amounts delinquent as of June 30, for fiscal years 2008-09 through 2017-18.

SECURED TAX CHARGES AND DELINQUENCIES Fiscal Years 2008-09 through 2017-18 Santa Clara County

	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent June 30</u>	<u>% Delinquent June 30</u>
2008-09	\$4,041,163.23	\$119,692.64	2.96%
2009-10	4,399,343.11	84,329.88	1.92
2010-11	4,812,302.65	85,295.90	1.77
2011-12	5,047,596.94	49,546.15	0.98
2012-13	⁽²⁾	⁽²⁾	0.47
2013-14	5,445,664.53	31,766.85	0.58
2014-15	8,113,005.39	48,889.15	0.60
2015-16	8,225,654.33	42,470.55	0.52
2016-17	9,055,270.49	39,567.16	0.44
2017-18	9,705,208.61	43,625.88	0.45

⁽¹⁾ Reflects general obligation bond debt service levy only.

⁽²⁾ Actual charge and delinquency numbers were not made available by the County.

Source: California State Controller's Office, as reported by California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment - Teeter Plan

Under 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 State Revenue and Taxation Code, each participating local agency levying property taxes, including school districts, receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected that would have been due to the local agency. The Teeter Plan, once adopted by a county, remains in effect unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the county. A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county when delinquencies for taxes levied by that agency exceed 3%.

The Teeter Plan applies to the 1% general purpose property tax levy. Whether or not the Teeter Plan also is applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of a local agency, varies by county.

The Board of Supervisors of the County has implemented the Teeter Plan. Under the Teeter Plan, the County funds the District its full secured *ad valorem* property tax levy allocation rather than funding only actual collections (levy less delinquencies). In exchange, the County receives the interest and penalties that accrue on delinquent payments, when the late taxes are collected. The County includes the District's 1% general purpose secured property tax levy and the secured property tax levy for the District's general obligation bonds, including the Bonds, under the Teeter Plan.

Tax Rates

A representative tax rate area (“TRA”) located within the District is TRA 17-076. The table below shows the total *ad valorem* property tax rates, as a percentage of assessed valuation, levied by all taxing entities in this TRA during the five-year period from fiscal years 2014-15 through 2018-19.

SUMMARY OF *AD VALOREM* TAX RATES (TRA 17-076)⁽¹⁾
Fiscal Years 2014-15 through 2018-19
Union Elementary School District

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
General	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
County Retirement Levy	.0388	.0388	.0388	.03880	.03880
County Hospital and Housing Bonds	.0091	.0088	.0086	.02086	.01770
Union Elementary School District Bonds	.1073	.1019	.1054	.10610	.10660
Campbell Union High School District Bonds	.0284	.0257	.0252	.05190	.04870
West Valley-Mission Community College District Bonds	.0120	.0232	.0196	.02000	.01980
City of San Jose Bonds	<u>.0253</u>	<u>.0223</u>	<u>.0207</u>	<u>.01860</u>	<u>.01700</u>
Total All Property Tax Rate	1.2209%	1.2207%	1.2183%	1.25626%	1.24860%
Santa Clara Valley Water District State Water Project	<u>.0065%</u>	<u>.0057%</u>	<u>.0086%</u>	<u>.00620%</u>	<u>.00420%</u>
Total Land and Improvement Tax Rate	.0065%	.0057%	.0086%	.00620%	.00420%

⁽¹⁾ The fiscal year 2018-19 assessed valuation of TRA 17-076 was \$7,124,944,506, which was 72.04% of the District’s total fiscal year 2018-19 assessed valuation.

Source: *California Municipal Statistics, Inc.*

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Principal Taxpayers

The more property (by assessed value) which is owned by a single taxpayer within the District, the greater amount of tax collections that are exposed to weaknesses in such a taxpayer's financial situation and ability or willingness to pay property taxes. The following table lists the 20 largest local secured taxpayers in the District in terms of their fiscal year 2018-19 secured assessed valuations. Each taxpayer listed below is a name listed on the tax rolls. The District cannot make any representation as to whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below.

LARGEST LOCAL SECURED TAXPAYERS

Fiscal Year 2018-19

Union Elementary School District

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2018-19 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.	Xilinx Inc.	Manufacturing	\$228,409,103	2.32%
2.	Samaritan Properties LLC	Office Building	91,011,305	0.93
3.	San Jose Water Works	Water Company	41,181,510	0.42
4.	Pan Cal Princeton Plaza LLC	Shopping Center	39,008,929	0.40
5.	Donahue Schriber Realty Group LP	Shopping Center	24,637,986	0.25
6.	Joseph E. Louis Trust	Apartments	24,392,768	0.25
7.	Good Samaritan Hospital LP	Hospital	22,934,274	0.23
8.	F & M Sorci Land Co. Inc.	Shopping Center	15,764,937	0.16
9.	Grancare Almaden LLC	Assisted Living	12,434,045	0.13
10.	KRT Group LLC	Office Building	11,095,922	0.11
11.	Davidon Homes	Residential Properties	10,867,950	0.11
12.	CVS Caremark Corporation	Shopping Center	10,679,603	0.11
13.	Deborah H. Chang, Trustee	Shopping Center	10,287,395	0.10
14.	Blossom Village Partners	Apartments	9,882,763	0.10
15.	Blossom Garden Apartments LP	Apartments	8,551,849	0.09
16.	Jarislow Glembocki, Trustee	Residential	8,391,712	0.09
17.	La Encina Development LLC	Residential	8,236,337	0.08
18.	Almaden Valley Athletic Club	Recreational	7,892,487	0.08
19.	Mob 1 of California LLC	Office Building	7,771,481	0.08
20.	Maridian Holding LLC	Office Building	7,340,976	0.07
			<u>\$600,773,332</u>	<u>6.11%</u>

⁽¹⁾ The District's fiscal year 2018-19 local secured assessed valuation was \$9,828,333,721.
Source: California Municipal Statistics, Inc.

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Statement of Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc., effective as of April 1, 2019. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. 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.

The table shows the percentage of each overlapping entity’s assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity’s existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows 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 shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

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STATEMENT OF DIRECT AND OVERLAPPING DEBT
Union Elementary School District

2018-19 Assessed Valuation: \$9,890,602,797

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/19</u>
Santa Clara County	2.048%	\$19,399,066
West-Valley Mission Community College District	7.025	34,093,028
Campbell Union High School District	20.405	79,445,847
Union Elementary School District	100.000	103,253,148⁽¹⁾
City of San Jose	3.940	12,730,534
Midpeninsula Regional Open Space District	0.783	723,962
Santa Clara Valley Water District Benefit Assessment District	2.048	1,506,714
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$251,152,299
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	2.048%	\$14,862,113
Santa Clara County Pension Obligations	2.048	7,216,720
Santa Clara County Board of Education Certificates of Participation	2.048	87,142
West Valley-Mission Community College District Certificates of Participation	7.025	4,369,550
Campbell Union High School District General Fund Obligations	20.405	2,040,500
City of San Jose General Fund Obligations	3.940	19,739,006
Santa Clara County Vector Control District Certificates of Participation	2.048	50,586
Midpeninsula Regional Open Space District General Fund Obligations	0.783	919,638
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$49,285,255
Less: Santa Clara County supported obligations		6,784,489
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$42,500,766
 GROSS COMBINED TOTAL DEBT		\$300,437,554⁽²⁾
NET COMBINED TOTAL DEBT		\$293,653,065

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$103,253,148).....	1.04%
Total Direct and Overlapping Tax and Assessment Debt.....	2.54%
Gross Combined Total Debt	3.04%
Net Combined Total Debt.....	2.97%

⁽¹⁾ Excludes the Bonds.

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

Source: California Municipal Statistics, Inc.

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CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The principal and Maturity Value of and interest on the Bonds are payable solely from the proceeds of an ad valorem property tax levied by the County for the payment thereof. See “THE BONDS – Security and Sources of Payment” herein. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 98 and 111, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes on behalf of the District and of the District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy ad valorem property taxes for payment of the principal and Maturity Value of and interest on the Bonds. The tax levied by the County for payment of the Bonds was approved by the District’s voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Article XIII A of the California Constitution

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

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

Article XIII A requires a vote of two-thirds or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem* property, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within

the exception described in (c) of the immediately preceding sentence. In addition, Article XIII A requires the approval of two-thirds or more of all members of the legislature of the State (the “State Legislature”) to change any State taxes for the purpose of increasing tax revenues.

Split Roll Property Tax Ballot Measure. On October 15, 2018, a proposed ballot initiative became eligible for the November 2020 Statewide ballot (the “2020 Ballot Measure”). If approved by a majority of voters casting a ballot at the November 2020 Statewide election, the 2020 Ballot Measure would amend Article XIII A such that the “full cash value” of commercial and industrial real property that is not zoned for commercial agricultural production, for each lien date, would be equal to the fair market value of that property. If passed, the 2020 Ballot Measure would not affect the “full cash value” of residential property or real property used for commercial agricultural production, which would continue to be subject to annual increases not to exceed 2%. After compensating the State General Fund for resulting reductions in State personal income tax and corporate tax revenues, and compensating cities, counties and special districts for the cost of implementing the 2020 Ballot Measure, approximately 40% of the remaining additional tax revenues generated as a result of the 2020 Ballot Measure would be deposited into a fund created pursuant to the 2020 Ballot Measure called the Local School and Community College Property Tax Fund, with such funds being used to supplement, and not replace, existing funding school districts and community college districts receive under the State’s constitutional minimum funding requirement. The District cannot predict whether the 2020 Ballot Measure will appear on the Statewide ballot at the November 2020 election or, if it does, whether the 2020 Ballot Measure will be approved by a majority of voters casting a ballot. If approved, the District cannot make any assurance as to what effect the implementation of the 2020 Ballot Measure will have on District revenues or the assessed valuation of real property in the District.

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 relevant county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

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

Both the United States Supreme Court and the State Supreme Court have upheld the general validity of Article XIII A.

Proposition 50 and Proposition 171

On June 3, 1986, the voters of the State approved Proposition 50. Proposition 50 amends Section 2 of Article XIII A of the State Constitution to allow owners of property that was “substantially damaged or destroyed” by a disaster, as declared by the Governor, (the “Damaged Property”), to transfer their existing base year value (the “Original Base Year Value”) to a comparable replacement property within the same county, which is acquired or constructed within five years after the disaster. At the time of such transfer, the Damaged Property will be reassessed at its full cash value immediately prior to damage or

destruction (the “Original Cash Value”); however, such property will retain its base year value notwithstanding such a transfer. Property is substantially damaged or destroyed if either the land or the improvements sustain physical damage amounting to more than 50 percent of either the land or improvements full cash value immediately prior to the disaster. There is no filing deadline, but the assessor can only correct four years of assessments when the owner fails to file a claim within four years of acquiring a replacement property.

Under Proposition 50, the base year value of the replacement property (the “Replacement Base Year Value”) depends on the relation of the full cash value of the replacement property (the “Replacement Cash Value”) to the Original Cash Value: if the Replacement Cash Value exceeds 120 percent of the Original Cash Value, then the Replacement Base Year Value is calculate by combining the Original Base Year Value with such excessive Replacement Cash Value; if the Replacement Cash Value does not exceed 120 percent of the Original Cash Value, then the Replacement Base Year Value equals the Original Base Year Value; if the Replacement Cash Value is less than the Original Cash Value, then the Replacement Base Year Value equals the Replacement Cash Value. The replacement property must be comparable in size, utility, and function to the Damaged Property.

On November 2, 1993, the voters of the State approved Proposition 171. Proposition 171 amends subdivision (e) of Section 2 of Article XIII A of the State Constitution to allow owners of Damaged Property to transfer their Original Base Year Value to a “comparable replacement property” located within another county in the State, which is acquired or newly constructed within three years after the disaster.

Intra-county transfers under Proposition 171 are more restrictive than inter-county transfers under Proposition 50. For example, Proposition 171 (1) only applies to (a) structures that are owned and occupied by property owners as their principal place of residence and (b) land of a “reasonable size that is used as a site for a residence;” (2) explicitly does not apply to property owned by firms, partnerships, associations, corporations, companies, or legal entities of any kind; (3) only applies to replacement property located in a county that adopted an ordinance allowing Proposition 171 transfers; (4) claims must be timely filed within three years of the date of purchase or completion of new construction; and (5) only applies to comparable replacement property, which has a full cash value that is of “equal or lesser value” than the Original Cash Value.

Within the context of Proposition 171, “equal or lesser value” means that the amount of the Replacement Cash Value does not exceed either (1) 105 percent of the Original Cash Value when the replacement property is acquired or constructed within one year of the destruction, (2) 110 percent of the Original Cash Value when the replacement property is acquired or constructed within two years of the destruction, or (3) 115 percent of the Original Cash Value when the replacement property is acquired or constructed within three years of the destruction.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the SBE as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed unitary and certain other property is allocated to counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as

equalization aid under the State's school financing formula. See "DISTRICT FINANCIAL INFORMATION – State Funding of Education" herein.

Article XIII B of the California Constitution

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

- (a) "change in the cost of living" with respect to school districts and community college districts (collectively "K-14 school districts") to mean the percentage change in State per capita income from the preceding year, and
- (b) "change in population" with respect to a school district to mean the percentage change in the ADA of the school district from the preceding fiscal year.

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

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

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

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

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

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the State Constitution Articles XIII C and XIII D

(respectively, “Article XIIC” and “Article XIID”), 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 State Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIIC 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 XIIC 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 State Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID 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 State Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Proposition 26

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

Propositions 98 and 111

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). Certain provisions of the Accountability Act were modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. 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-14 school districts at a level equal to the greater of (a) the same percentage of State general fund revenues as the percentage appropriated to such districts in the 1986-87 fiscal year, and (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the State Legislature to suspend this formula for a one-year period.

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

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

On June 5, 1990, the voters of the State approved Proposition 111 (Senate Constitutional Amendment No. 1) called the “Traffic Congestion Relief and Spending Limitation Act of 1990” (“Proposition 111”) which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the “change in the cost of living” is now measured by the change in State per capita personal income. The definition of “change in population” specifies that a portion of the State’s spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. “Excess” tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school

districts, but only up to a maximum of 4% of such districts' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

- c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit: (i) all appropriations for "qualified capital outlay projects" as defined by the State Legislature, and (ii) any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the State Legislature and the Governor, which was expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues ("Test 1") or (2) 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 ("Test 2"). Under Proposition 111, K-14 school districts will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test ("Test 3"), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in State per capita personal income. Under Test 3, K-14 school districts will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

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

government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

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

Proposition 1A and Proposition 22

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

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

an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, was projected to be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

Proposition 30 and Proposition 55

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

The California Children's Education and Health Care Protection Act of 2016 (also known as "Proposition 55") is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Proposition 55 did not extend the temporary State Sales and Use Tax rate increase enacted under Proposition 30, which expired as of January 1, 2017.

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

Jarvis v. Connell

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

to a federal mandate. On May 1, 2003, the State Supreme Court upheld the holding of the Court of Appeal, stating that the State Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 2

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

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

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

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

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is

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

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 PSSSA, 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 ADA of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the State Education Code, or (b) for school districts with an ADA that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the State 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 ADA 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 immediately after a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

The Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the State 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 Bonds as and when the same shall come due.

Proposition 51

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

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

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

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution and Propositions 22, 26, 30, 39, 98, 55 and 51 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the District's general fund finances and State funding of public 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 and Maturity Value of and interest on the Bonds are payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS – Security and Sources of Payment" herein.

State Funding of Education

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

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

The following table reflects the District's historical ADA and the revenue limit rates per unit of ADA for fiscal years 2007-08 through 2012-13.

AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT Fiscal Years 2007-08 through 2012-13 Union Elementary School District

<u>Fiscal Year</u>	<u>ADA⁽¹⁾</u>	<u>Change</u>	<u>Base Revenue Limit Per ADA⁽²⁾</u>	<u>Deficit Revenue Limit Per ADA⁽²⁾</u>
2007-08	4,375.95	--	\$5,519.13	\$5,519.13
2008-09	4,436.49	60.54	5,834.13	5,376.49
2009-10	4,576.77	140.28	6,084.13	4,714.38
2010-11	4,652.30	75.53	6,060.13	4,971.55
2011-12	4,909.94	257.64	6,197.13	4,920.40
2012-13	5,154.30	244.36	6,421.15	4,991.03

⁽¹⁾ Reflects ADA as of the second principal reporting period ("P-2 ADA"), which ends on or before the last attendance month prior to April 15 of each school year. An attendance month is equal to each four-week period of instruction beginning with the first day of school for any school district. Excludes ADA of County-operated programs.

⁽²⁾ Deficit revenue limit funding, when provided for in State budgetary legislation, reduced the revenue limit allocations received by school districts by applying a deficit factor to the base revenue limit for the given fiscal year, and resulted from an insufficiency of appropriation funds in the State budget to provide for State aid owed to school districts. The State's practice of deficit revenue limit funding was most recently reinstated beginning in fiscal year 2008-09, and discontinued following the implementation of the LCFF (as defined herein) in fiscal year 2013-14.

Source: Union Elementary School District.

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

The primary component of AB 97, as amended by SB 91, was the implementation of the Local Control Funding Formula (“LCFF”), which replaced the revenue limit funding system for determining State apportionments, as well as the majority of State categorical program funding. State allocations are now provided on the basis of target base funding grants per unit of ADA (a “Base Grant”) assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment has been calculated for each school district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts have had the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district’s funding gap.

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

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

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

The following table shows a breakdown of the District's ADA by grade span, enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2013-14 through 2018-19, and budgeted amounts for fiscal year 2019-20.

ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2013-14 through 2019-20
Union Elementary School District

Fiscal Year	Average Daily Attendance⁽¹⁾				Enrollment⁽²⁾	
	<u>K-3</u>	<u>4-6</u>	<u>7-8</u>	<u>Total ADA</u>	<u>Total Enrollment</u>	<u>% of EL/LI Enrollment</u>
2013-14	2,397.03	1,775.04	1,120.01	5,292.08	5,408	21.28%
2014-15	2,388.98	1,849.52	1,174.11	5,412.61	5,533	19.99
2015-16	2,443.18	1,878.87	1,229.88	5,551.93	5,692	20.43
2016-17	2,401.28	1,948.51	1,257.45	5,607.24	5,751	18.96
2017-18	2,394.42	2,010.75	1,253.00	5,658.17	5,793	20.17
2018-19	2,442.17	2,014.73	1,275.95	5,732.85	5,883	19.20
2019-20 ⁽³⁾	2,516.73	1,950.20	1,388.54	5,855.47	5,988	19.52

⁽¹⁾ Reflects P-2 ADA.

⁽²⁾ Reflects certified enrollment as of the fall census day (the first Wednesday in October), which is reported to the California Longitudinal Pupil Achievement Data System ("CALPADS") in each school year and is used to calculate each school district's unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the California Department of Education. For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI students is expressed solely as a percentage of its total fiscal year 2013-14 enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment is based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI students is based on a rolling average of such district's EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years. Excludes ADA of County-operated programs.

⁽³⁾ Budgeted.

Source: Union Elementary School District.

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

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

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

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

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

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

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

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

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

Other Revenue Sources

Federal and Local Sources. The federal government provides funding for several school district programs, including special education programs, programs under the Every Student Succeeds Act, and specialized programs such as Drug Free Schools, Innovative Strategies, and Vocational & Applied Technology. In addition, school districts receive additional local revenues beyond local property tax collections, such as leases and rentals (as discussed below), interest earnings, interagency services, foundation contributions, parcel taxes (as discussed below), developer fees (as discussed below), redevelopment revenues and other local sources.

Parcel Taxes. Parcel taxes are “special taxes” for purposes of the State Constitution, and as such must be approved by at least two-thirds of the voters voting on the relevant proposition. On May 4, 2010, the voters of the District approved Measure H, a six-year tax of \$96 per parcel to be levied within the District to raise funds to augment the District’s operating budget. On November 3, 2015, the voters of the District approved Measure B, a renewal of the \$96 per parcel tax for an additional 10 years. Measure B commenced in fiscal year 2016-17 and will expire after fiscal year 2025-26. The following table shows revenues received from the parcel taxes over the last five fiscal years, and a budgeted amount for fiscal year 2019-20. The parcel tax revenues are deposited into the District’s general fund.

PARCEL TAX REVENUES Fiscal Years 2014-15 through 2019-20 Union Elementary School District

<u>Fiscal Year</u>	<u>Parcel Tax Revenues</u>
2014-15	\$1,281,888
2015-16	1,280,544
2016-17	1,283,424
2017-18	1,278,432
2018-19 ⁽¹⁾	1,271,520
2019-20 ⁽²⁾	1,271,520

⁽¹⁾ Estimated.

⁽²⁾ Budgeted.

Source: Union Elementary School District.

Developer Fees. The District currently collects developer fees (the “Developer Fees”) in the amount of \$2.35 per square foot for residential development and \$0.38 per square foot for commercial development pursuant to Government Code Section 65995. The Developer Fees received by the District are deposited into the District’s Capital Facilities Fund. The following table shows the Developer Fees collected by the District over the last five fiscal years, and a budgeted amount for fiscal year 2019-20.

DEVELOPER FEES
Fiscal Years 2014-15 through 2019-20
Union Elementary School District

<u>Fiscal Year</u>	<u>Developer Fees Collected</u>
2014-15	\$227,984
2015-16	206,885
2016-17	142,605
2017-18	150,355
2018-19 ⁽¹⁾	159,837
2019-20 ⁽²⁾	71,370

⁽¹⁾ Estimated.

⁽²⁾ Budgeted.

Source: Union Elementary School District.

The District, however, can make no representations that the Developer Fees will continue to be received by the District in amounts consistent with prior years, or as currently projected.

Surplus School Sites Lease Revenues. The District has seven surplus school sites that closed between 1977 and 2004. The District currently leases each of the surplus school sites to a variety of long-term tenants, and the District currently has no expectation of reopening the sites for District purposes. The following table shows the combined lease revenues received by the District for the surplus school sites over the last five fiscal years, and a budgeted amount for fiscal year 2019-20. The lease revenues collected are deposited into the District’s Building Fund (distinct from the Building Fund described herein with respect to the Bonds).

SURPLUS SCHOOL SITES LEASE REVENUES
Fiscal Years 2014-15 through 2019-20
Union Elementary School District

<u>Fiscal Year</u>	<u>Lease Revenues Collected</u>
2014-15	\$5,027,836
2015-16	5,191,251
2016-17	5,427,998
2017-18	5,692,028
2018-19 ⁽¹⁾	6,040,360
2019-20 ⁽²⁾	6,218,169

⁽¹⁾ Estimated.

⁽²⁾ Budgeted.

Source: Union Elementary School District.

State Dissolution of Redevelopment Agencies

On December 30, 2011, the State Supreme Court issued its decision in the case of California Redevelopment Association v. Matosantos, finding ABX1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in the State ceased to exist as a matter of law on February 1, 2012.

ABX1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12) (“AB 1484”), which, together with ABx1 26, is referred to herein as the “Dissolution Act.” The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the California Community Redevelopment Law that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a “Successor Agency”). All property tax revenues that would have been allocated to a redevelopment agency, less the corresponding county auditor-controller’s cost to administer the allocation of property tax revenues, are now allocated to a corresponding Redevelopment Property Tax Trust Fund (“Trust Fund”), to be used for the payment of pass-through payments to local taxing entities, and thereafter to bonds of the former redevelopment agency and any “enforceable obligations” of the Successor Agency, as well as to pay certain administrative costs. The Dissolution Act defines “enforceable obligations” to include bonds, loans, legally required payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations.

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, equal to at least \$250,000 in any year, unless the oversight board reduces such amount for any fiscal year or a lesser amount is agreed to by the Successor Agency; then, fourth is tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Reform Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) (“AB 1290”), are restricted to educational facilities without offset against apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the affected local taxing entity uses the moneys received for land

acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

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

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

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

Budget Process

State Budgeting Requirements. The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 (“AB 1200”), which became State law on October 14, 1991. Portions of AB 1200 are summarized below. Additional amendments to the budget process were made by Assembly Bill 2585, effective as of September 9, 2014, including the elimination of the dual budget cycle option for school districts. All school districts must now be on a single budget cycle.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a LCAP, and whether the budget’s ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before September 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by September 15 of the county superintendent’s recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent’s recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the district for public

inspection. No later than October 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

A school district whose budget has been disapproved must revise and readopt its budget by October 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final school district budgets and not later than November 8, must approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. No later than November 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. Until a school district's budget is approved, the school district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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

The District has never had an adopted budget disapproved by the County Superintendent of Schools and has never received a "negative" certification of an interim financial report pursuant to AB 1200.

General Fund Budgeting. The table on the following page summarizes the District's general fund adopted budgets for fiscal years 2014-15 through 2018-19, audited actual results for fiscal years 2014-15 through 2017-18, and projected actuals for fiscal year 2018-19.

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GENERAL FUND BUDGETING
Fiscal Years 2014-15 through 2019-20
Union Elementary School District

	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20
	<u>Budgeted⁽¹⁾</u>	<u>Audited⁽¹⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Audited⁽¹⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Audited⁽¹⁾</u>	<u>Budgeted⁽¹⁾</u>	<u>Audited⁽¹⁾</u>	<u>Budgeted⁽²⁾</u>	<u>Estimated⁽³⁾</u>	<u>Budgeted⁽³⁾</u>
Revenues											
LCFF sources	\$36,146,474	\$35,282,724	\$40,924,421	\$40,876,449	\$43,152,039	\$43,449,962	\$44,406,583	\$44,790,137	\$47,498,676	\$48,470,560	\$51,231,540
Federal revenues	1,397,883	1,426,518	1,382,244	1,445,165	1,413,261	1,487,507	1,384,171	1,433,630	1,384,898	1,810,628	1,518,365
Other state	1,234,610	2,847,575	4,615,078	6,231,887	2,650,777	4,260,187	2,887,467	5,297,196	5,663,670	5,143,819	3,974,301
Other local	<u>2,862,277</u>	<u>3,484,842</u>	<u>2,783,645</u>	<u>2,471,257</u>	<u>1,479,396</u>	<u>2,432,549</u>	<u>1,474,626</u>	<u>2,487,141</u>	<u>1,464,112</u>	<u>2,570,166</u>	<u>1,659,251</u>
Total Revenues	41,641,244	43,041,659	49,705,388	51,024,758	48,695,473	51,630,205	50,152,847	54,008,104	56,011,356	57,995,173	58,383,457
Expenditures											
Current:											
Certificated salaries	23,572,791	23,468,784	25,373,645	25,665,484	27,732,256	28,107,561	28,613,157	29,534,273	29,863,845	30,905,343	31,560,538
Classified salaries	6,059,691	6,248,967	6,713,955	6,849,909	6,877,914	7,930,600	7,713,605	8,256,226	8,572,935	9,638,361	9,858,881
Employee benefits	7,717,015	8,571,708	8,585,280	9,843,084	10,291,698	12,055,489	13,144,775	14,548,073	15,245,506	15,779,701	16,917,655
Books and supplies	2,057,320	2,296,386	1,772,855	1,711,106	1,676,059	1,804,078	1,865,754	1,660,388	1,703,235	1,926,831	1,745,564
Services and other operating expenditures	6,196,442	5,282,290	7,233,267	7,817,492	8,055,537	8,449,698	8,031,417	8,182,242	8,390,636	8,889,376	8,242,380
Capital outlay	156,500	118,710	199,000	247,226	204,000	111,968	136,000	104,416	141,000	226,084	171,170
Other outgo	<u>1,473,043</u>	<u>234,334</u>	<u>1,660,989</u>	<u>482,824</u>	<u>301,249</u>	<u>486,975</u>	<u>530,078</u>	<u>487,639</u>	<u>546,664</u>	<u>540,981</u>	<u>474,000</u>
Total Expenditures	47,232,802	46,221,179	51,538,991	52,617,125	55,138,713	58,946,369	60,034,786	62,773,257	64,463,821	67,906,678	68,970,188
Excess (deficiency) of revenues over (under) expenditures	(5,591,558)	(3,179,520)	(1,833,603)	(1,592,367)	(6,443,240)	(7,316,164)	(9,881,939)	(8,765,153)	(8,452,465)	(9,911,505)	(10,586,731)
Other financing sources/(uses)											
Transfers in ⁽⁴⁾	6,333,005	5,107,888	5,044,809	4,031,490	5,883,938	7,871,154	7,608,581	7,687,423	7,963,141	9,055,748	8,731,837
Transfers out	(588,666)	(414,052)	(167,699)	(20,332)	(150,171)	(197,457)	(479,621)	(285,504)	(351,589)	(271,889)	(234,262)
Other sources/uses	--	--	--	--	--	--	--	--	--	--	--
Contributions	--	--	--	--	--	--	--	--	--	--	--
Total other financing sources (uses)	5,744,339	4,693,836	4,877,110	4,011,158	5,733,767	7,673,697	7,128,960	7,401,919	7,611,552	8,783,859	8,497,575
Change in fund balance	152,781	1,514,316	3,043,507	2,418,791	(709,473)	357,533	(2,752,979)	(1,363,234)	(840,913)	(1,127,647)	(2,089,156)
Fund balances, beginning	<u>3,509,373</u>	<u>3,509,373</u>	<u>5,023,689</u>	<u>5,023,689</u>	<u>7,442,480</u>	<u>7,442,480</u>	<u>7,800,013</u>	<u>7,800,013</u>	<u>6,436,777</u>	<u>6,436,777</u>	<u>5,309,130</u>
Fund balances, ending	<u>\$3,662,154</u>	<u>\$5,023,689</u>	<u>\$8,067,196</u>	<u>\$7,442,480</u>	<u>\$6,733,007</u>	<u>\$7,800,013</u>	<u>\$5,047,034</u>	<u>\$6,436,779</u>	<u>\$5,595,864</u>	<u>\$5,309,130</u>	<u>\$3,219,974</u>

(1) From the District's Comprehensive Audited Financial Statements for fiscal years 2014-15 through 2017-18, respectively.

(2) From the District's Second Interim Financial Report for fiscal year 2018-19, approved by the Board on March 11, 2019. Numbers are rounded to nearest whole dollar.

(3) From the District's Adopted Budget for fiscal year 2019-20, approved by the Board on June 10, 2019. Numbers are rounded to nearest whole dollar.

(4) Primarily represents transfers in of lease revenues from surplus school sites. See "- Other Revenue Sources - Surplus School Sites Lease Revenues" herein.

Source: Union Elementary School District.

Accounting Practices

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

Comparative Financial Statements

Audited financial statements for the District for the fiscal year ended June 30, 2018 and prior fiscal years are on file with the District and available for public inspection at the Union Elementary School District, 5175 Union Avenue, San Jose, California 95124, telephone: (408) 377-8010.

The table on the following page reflects the District's audited general fund revenues, expenditures and changes in fund balance for fiscal years 2013-14 through 2017-18.

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**AUDITED GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND FUND BALANCES⁽¹⁾**

Fiscal Years 2013-14 through 2017-18

Union Elementary School District

	<u>Fiscal Year 2013-14</u>	<u>Fiscal Year 2014-15</u>	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2016-17</u>	<u>Fiscal Year 2017-18</u>
Revenues:					
Revenue LCFF sources	\$33,051,718	\$35,282,724	\$40,876,449	\$43,449,962	\$44,790,137
Federal Revenue	1,365,262	1,426,518	1,445,165	1,487,507	1,433,630
Other State Revenue	2,330,613	2,847,575	6,231,887	4,260,187	5,297,196
Other Local Revenue	<u>3,569,629</u>	<u>3,484,842</u>	<u>2,471,257</u>	<u>2,432,549</u>	<u>2,487,141</u>
Total revenues	40,317,222	43,041,659	51,024,758	51,630,205	54,008,104
Expenditures:					
Current					
Instruction	27,246,389	29,179,312	32,783,019	36,762,069	39,752,329
Instruction-related services:					
Supervision of instruction	1,390,176	1,605,837	1,688,018	2,547,624	3,002,368
Instruction library, media and technology	2,400,426	2,658,472	2,852,280	2,748,851	2,262,505
School site administration	2,571,047	2,718,684	2,898,725	3,235,670	3,119,684
Pupil services:					
Home-to-school transportation	236,377	249,213	397,981	402,700	517,160
Food services	3,108	29	9,071	15,148	10,929
All other pupil services	1,549,797	2,175,569	3,424,278	2,729,670	3,643,535
General administration:					
Data processing	124,080	135,207	254,157	193,148	128,167
All other general administration	2,626,746	2,897,347	2,521,889	3,715,142	3,603,470
Plant services	4,231,447	4,216,731	5,130,129	5,822,643	5,884,904
Facilities acquisition and construction	17,484	--	--	--	64,070
Ancillary services	79,716	76,202	84,795	108,997	90,143
Enterprise services	51,508	74,240	89,959	177,731	206,354
Transfers to other agencies	<u>1,397,791</u>	<u>234,336</u>	<u>482,824</u>	<u>486,976</u>	<u>487,639</u>
Total expenditures	43,926,092	46,221,179	52,617,125	58,946,369	62,773,257
Excess (deficiency) of revenues over (under) expenditures	(3,608,870)	(3,179,520)	(1,592,367)	(7,316,164)	(8,765,153)
Other financing sources (uses):					
Transfers in ⁽²⁾	3,501,316	5,107,888	4,031,490	7,871,154	7,687,423
Transfers out	<u>(334,609)</u>	<u>(414,052)</u>	<u>(20,332)</u>	<u>(197,457)</u>	<u>(285,504)</u>
Total other financing sources (uses)	3,166,707	4,693,836	4,011,158	7,673,697	7,401,919
Net change in fund balances	(442,163)	1,514,316	2,418,791	357,533	(1,363,234)
Fund balances, beginning	<u>3,951,536</u>	<u>3,509,373</u>	<u>5,023,689</u>	<u>7,442,480</u>	<u>7,800,013</u>
Fund balances, ending	<u>\$3,509,373</u>	<u>\$5,023,689</u>	<u>\$7,442,480</u>	<u>\$7,800,013</u>	<u>\$6,436,779</u>

⁽¹⁾ From the District's Comprehensive Audited Financial Statements for fiscal years 2013-14 through 2017-18, respectively.

⁽²⁾ Primarily represents transfers in of lease revenues from surplus school sites. See "- Other Revenue Sources - Surplus School Sites Lease Revenues" herein.

Source: Union Elementary School District.

State Budget Measures

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal or Maturity Value of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the County in an amount sufficient for the payment thereof.

2019-20 Budget. On June 27, 2019, the Governor signed into law the State budget for fiscal year 2019-20 (the "2019-20 Budget"). The following information is drawn from the State Department of Finance's summary of the 2019-20 Budget.

For fiscal year 2018-19, the 2019-20 Budget projects total general fund revenues and transfers of \$138 billion and total expenditures of \$142.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$20.7 billion, including \$5.4 billion in the traditional general fund reserve, \$14.4 billion in the BSA and \$900 million in the Safety Net Reserve Fund for the CalWORKs and Medi-Cal programs. For fiscal year 2019-20, the 2019-20 Budget projects total general fund revenues and transfers of \$143.8 billion and authorizes expenditures of \$147.8 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.8 billion, including \$1.4 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The 2019-20 Budget also authorizes a deposit to the PSSSA of \$376.5 million in order to comply with Proposition 2. The amount is below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014 (and amended in 2017). See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2 – SB 858; SB 751" herein.

For fiscal year 2019-20, the Budget sets the minimum funding guarantee at \$81.1 billion. With respect to K-12 education, ongoing per-pupil spending is set at \$11,993. Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$1.9 billion in Proposition 98 funding for the LCFF, reflecting a 3.26% COLA.
- *Settle-Up Payment* – An increase of \$686.6 million for K-14 school districts to pay the balance of past-year Proposition 98 funding owed through fiscal year 2017-18.
- *Special Education* – \$645.3 million in ongoing Proposition 98 funding for special education. Specifically, the 2019-20 Budget allocates (i) \$152.6 million to provide all special education local area plans at least the Statewide target rate for base special education funding, and (ii) \$492.7 million in special education funding, to be allocated to school districts based on the number of children between three to five years of age and with exceptional needs that are being served.
- *Pension Costs* – A \$3.15 billion payment from non-Proposition 98 funds to STRS (as defined herein) and PERS (as defined herein), to reduce long-term liabilities for K-14 school districts. Of this amount, \$850 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. With these payments, STRS employer contributions will be reduced from 18.13% to 17.1% in fiscal year 2019-20, and from 19.1% to 18.4% in fiscal year 2020-21. PERS employer contributions will be reduced from 20.7% to 19.7% in fiscal

year 2019-20, and from 23.6% to 22.9 % in fiscal year 2020-21. The remaining \$2.3 billion would be paid towards employers' long-term unfunded liability. See also "UNION ELEMENTARY SCHOOL DISTRICT – District Retirement Systems" herein.

- *After School Programs* – \$50 million in ongoing Proposition 98 funding to provide an increase of approximately 8.3% to the per-pupil daily rate for after school education and safety programs.
- *Teacher Support* – \$43.8 million in one-time non-Proposition 98 funding to provide training and resources for classroom educators and paraprofessionals, to build capacity in key State priorities. The 2019-20 Budget also includes \$89.8 in one-time, non-Proposition 98 funding to provide up to 4,487 grants for students enrolled in professional teacher preparation programs who commit to working in a high-need field at a priority school for at least four years.
- *Broadband Infrastructure* – \$7.5 million in one-time, non-Proposition 98 funding for broadband infrastructure improvements at local educational agencies.
- *Full-Day Kindergarten* – \$300 million in one-time, non-Proposition 98 funding to finance construction or retrofit of facilities to support full-day kindergarten programs.
- *Wildfire-Related Cost Adjustments* – An increase of \$2 million in one-time Proposition 98 funding to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by wildfires which occurred in 2017 and 2018. The 2019-20 Budget also holds both school districts and charter schools impacted by wildfires in 2018 harmless in terms of State funding for two years.
- *Proposition 51* – The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative approved at the November 8, 2016 election that authorizes the sale and issuance of \$9 billion in State general obligation bonds for the new construction and modernization of K-14 facilities. The 2019-20 Budget allocates \$1.5 billion of such bond funds for K-12 school facility projects.

For additional information regarding the 2019-20 Budget, see the State Department of Finance website at www.dof.ca.gov. However, the information presented on such website is not incorporated herein by reference.

Future Actions. The District cannot predict what actions will be taken in the future by the Legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District. However, the obligation to levy *ad valorem* property taxes upon all taxable property within the District for the payment of principal and Maturity Value of and interest on the Bonds would not be impaired.

UNION ELEMENTARY SCHOOL DISTRICT

The information in this section concerning the operations of the District and the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and Maturity Value of and interest on the Bonds are payable from the general fund of the District. The principal and Maturity Value of and interest on the Bonds are payable solely from the proceeds of an ad valorem property tax levied annually by the County in an amount sufficient for the payment thereof. See "THE BONDS – Security and Sources of Payment" herein.

Introduction

The District was established as an elementary school district in 1863 and includes territory in the Cities of San Jose and Los Gatos, California and an unincorporated area of the County, California (the "County"). The District covers approximately eight square miles and operates six elementary schools and two middle schools. The District has budgeted an ADA of 5,855 students in fiscal year 2019-20. For fiscal year 2018-19, the District had an assessed valuation of \$9,890,602,797.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of subsequent audited financial reports of the District may be obtained by contacting the District.

Administration

The District is governed by the five-member Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

BOARD OF TRUSTEES Union Elementary School District

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jennifer Petroff	President	November 2020
Thomas E. Rossmeissl	Vice President	November 2022
Doug Evans	Clerk	November 2022
Sheila Billings	Member	November 2022
Vickie Brown	Member	November 2020

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Denise Coleman is currently the Superintendent of the District. Brief biographies of the Superintendent and the Assistant Superintendent of Business Services follow:

Denise Coleman, Superintendent. Ms. Coleman was appointed to serve as Superintendent of the District in July 2015. Immediately prior to joining the District, Ms. Coleman served as the Assistant Superintendent of Educational Services for the Moreland School District. Her previous roles also include Assistant Superintendent of Human Resources, Director of Business Services, Principal, and Teacher at Moreland School District. Ms. Coleman earned a Master's in Administration degree from San Jose State University.

Rita Sohal, Assistant Superintendent of Business Services. Ms. Sohal joined the District in 2008. Prior to her appointment as Assistant Superintendent of Business Services, she held a variety of positions including Director of Fiscal Services, Assistant Controller, and Accountant. Ms. Sohal holds a degree in Accounting from the University of Phoenix.

Historical Enrollment

On average throughout the District, the regular education pupil-teacher ratio is approximately 24:1 in grades K-3, 30:1 in grades 4-5, and 30:1 in grades 6-8. The following table shows a 10-year enrollment history for the District.

HISTORICAL ENROLLMENT Fiscal Years 2009-10 through 2019-20 Union Elementary School District

<u>Fiscal Year</u>	<u>Enrollment</u> ⁽¹⁾	<u>Change</u>
2010-11	4,769	--
2011-12	5,029	5.45%
2012-13	5,298	5.35
2013-14	5,408	2.08
2014-15	5,533	2.31
2015-16	5,692	2.87
2016-17	5,751	1.04
2017-18	5,793	0.73
2018-19	5,883	1.55
2019-20 ⁽²⁾	5,988	1.78

⁽¹⁾ Reflects enrollment as of the October report submitted to the California Basic Educational Data System ("CBEDS") for fiscal years 2009-10 through 2012-13, and October CALPADS for fiscal years 2013-14 through 2018-19. Excludes enrollment of County-operated programs.

⁽²⁾ Budgeted.

Source: Union Elementary School District.

Labor Relations

As of March 31, 2019, the District employed 300.3 full-time equivalent ("FTE") certificated employees, 151.9 FTE classified employees, and 32 FTE management, confidential and certain other unrepresented employees. As of March 31, 2019, District employees, except management, confidential, and certain other unrepresented employees, are represented by the two bargaining units as noted below:

EMPLOYEE BARGAINING UNITS Union Elementary School District

<u>Labor Organization</u>	<u>Number of Employees In Organization</u>	<u>Contract Expiration Date</u>
California School Employees Association	226	June 30, 2019 ⁽¹⁾
Union District Educators' Association	315	June 30, 2019 ⁽¹⁾

⁽¹⁾ Employees continue to work under the terms of the respective labor contracts while new contracts are negotiated.

Source: Union Elementary School District.

District Retirement Systems

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

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

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State passed the legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 ("AB 1469") into law as a part of the State's fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the "2014 Liability"), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014, the employee contribution rate increased over a three-year phase-in period in accordance with the following schedule:

MEMBER CONTRIBUTION RATES STRS (Defined Benefit Program)

<u>Effective Date</u>	<u>STRS Members Hired Prior to January 1, 2013</u>	<u>STRS Members Hired After January 1, 2013</u>
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200	8.560
July 1, 2016	10.250	9.205

Source: AB 1469.

Pursuant to the Reform Act (defined below), the contribution rates for members hired after the Implementation Date (defined below) will be adjusted if the normal cost increases by more than 1% since the last time the member contribution was set. The contribution rate for employees hired after the Implementation Date (defined below) increased from 9.205% of creditable compensation for fiscal year

commencing July 1, 2017 to 10.205% of creditable compensation effective July 1, 2018. For fiscal year commencing July 1, 2019, the contribution rate for employees hired after the Implementation Date (defined below) will be 10.205%.

Pursuant to AB 1469, K-14 school districts' contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

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

<u>Effective Date</u>	<u>K-14 school districts</u>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

Source: AB 1469.

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

On June 27, 2019, the Governor signed SB 90 ("SB 90") into law as a part of the 2019-20 Budget. Pursuant to SB 90, the State Legislature appropriated \$2.246 billion to be transferred to the Teacher's Retirement Fund for the STRS Defined Benefit Program to pay in advance, on behalf of employers, part of the contributions required for fiscal years 2019-20 and 2020-21, resulting in K-14 school districts having to contribute 1.03% less in fiscal year 2019-20 and 0.70% less in fiscal year 2020-21. The remainder of the payment not committed for the reduction in employer contribution rates described above, is required to be allocated to reduce the employer's share of the unfunded actuarial obligation determined by the STRS Board upon recommendation from its actuary. See "DISTRICT FINANCIAL INFORMATION – State Budget Measures" herein.

The District's contributions to STRS were \$2,033,966 in fiscal year 2014-15, \$2,640,914 in fiscal year 2015-16, \$3,443,035 in fiscal year 2016-17, \$4,171,121 in fiscal year 2017-18, and \$4,921,905 (estimated) in fiscal year 2018-19. The District has budgeted \$5,301,634 for its contribution to STRS for fiscal year 2019-20.

The State also contributes to STRS, currently in an amount equal to 7.328% for fiscal year 2018-19 and 7.828% for fiscal year 2019-20. The State's contribution reflects a base contribution rate of

2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990.

In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2017 included 1,624 public agencies and 1,366 K-14 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures for fiscal year 2018-19, and will be 20.733% of eligible salary expenditures in fiscal year 2019-20. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2018-19 and will be 7% in fiscal year 2019-20, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% in fiscal year 2018-19 and will be 7% in fiscal year 2019-20. See "- California Public Employees' Pension Reform Act of 2013" herein.

Pursuant to SB 90, the State Legislature appropriated \$144 million for fiscal year 2019-20 and \$100 million for fiscal year 2020-21 to be transferred to the Public Employees' Retirement Fund, to pay in advance, on behalf of K-14 school district employers, part of the contributions required for K-14 school district employers for such fiscal years. In addition, the State Legislature appropriated \$660 million to be applied toward certain unfunded liabilities for K-14 school district employers. See "DISTRICT FINANCIAL INFORMATION – State Budget Measures" herein.

The District's contributions to PERS were \$654,580 in fiscal year 2014-15, \$707,768 in fiscal year 2015-16, \$909,398 in fiscal year 2016-17, \$1,139,859 in fiscal year 2017-18, and \$1,423,112 (estimated) in fiscal year 2018-19. The District has budgeted \$1,726,165 for its contribution to PERS for fiscal year 2019-20.

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

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

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FUNDED STATUS
STRS (Defined Benefit Program) and PERS (Schools Pool)
(Dollar Amounts in Millions) ⁽¹⁾
Fiscal Years 2010-11 through 2017-18

<u>STRS</u>					
<u>Fiscal Year</u>	<u>Accrued Liability</u>	<u>Value of Trust Assets (MVA) ⁽²⁾</u>	<u>Unfunded Liability (MVA) ⁽²⁾</u>	<u>Value of Trust Assets (AVA) ⁽³⁾</u>	<u>Unfunded Liability (AVA) ⁽³⁾</u>
2010-11	\$208,405	\$147,140	\$68,365	\$143,930	\$64,475
2011-12	215,189	143,118	80,354	144,232	70,957
2012-13	222,281	157,176	74,374	148,614	73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
2017-18	297,603	211,367	101,992	190,451	107,152

<u>PERS</u>					
<u>Fiscal Year</u>	<u>Accrued Liability</u>	<u>Value of Trust Assets (MVA) ⁽²⁾</u>	<u>Unfunded Liability (MVA) ⁽²⁾</u>	<u>Value of Trust Assets (AVA) ⁽³⁾</u>	<u>Unfunded Liability (AVA) ⁽³⁾</u>
2010-11	\$58,358	\$45,901	\$12,457	\$51,547	\$6,811
2011-12	59,439	44,854	14,585	53,791	5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	-- ⁽⁴⁾	-- ⁽⁴⁾
2014-15	73,325	56,814	16,511	-- ⁽⁴⁾	-- ⁽⁴⁾
2015-16	77,544	55,785	21,759	-- ⁽⁴⁾	-- ⁽⁴⁾
2016-17	84,416	60,865	23,551	-- ⁽⁴⁾	-- ⁽⁴⁾
2017-18 ⁽⁵⁾	92,071	64,846	27,225	-- ⁽⁴⁾	-- ⁽⁴⁾

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ Reflects market value of assets, including the assets allocated to the SBPA reserve. Since the benefits provided through the SBPA are not a part of the projected benefits included in the actuarial valuations summarized above, the SBPA reserve is subtracted from the STRS Defined Benefit Program assets to arrive at the value of assets available to support benefits included in the respective actuarial valuations.

⁽³⁾ Reflects actuarial value of assets.

⁽⁴⁾ Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.

⁽⁵⁾ On April 16, 2019, the PERS Board (defined below) approved the K-14 school district contribution rate for fiscal year 2019-20 and released certain actuarial information to be incorporated into the June 30, 2018 actuarial valuation to be released in summer 2019.

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

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member's increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the "2016 STRS Actuarial Valuation"). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 STRS Actuarial Valuation and 7.00% for the June 30, 2017 actuarial evaluation (the "2017 STRS Actuarial Valuation"), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation

rate to 2.75%. The 2017 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on salary increases less than assumed and actuarial asset gains recognized from the current and prior years, the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2018 (the “2018 STRS Actuarial Valuation”) reports that the unfunded actuarial obligation decreased by \$109 million since the 2017 STRS Actuarial Valuation and the funded ratio increased by 1.4% to 64.0% over such time period.

According to the 2018 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.9%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

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

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% for the June 30, 2017 actuarial valuation, 7.25% for the June 30, 2018 actuarial valuation and 7.00% for the June 30, 2019 actuarial valuation. The new discount rate went into effect July 1, 2017 for the State and July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise.

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

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

The PERS Board is required to undertake an experience study every four years under its Actuarial Assumptions Policy and State law. As a result of the most recent experience study, on December 20, 2017, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation rate to 2.625% for the June 30, 2018 actuarial valuation and to 2.50% for the June 30, 2019 actuarial valuation, (ii) lowering the payroll growth rate to 2.875% for the June 30, 2018 actuarial valuation and 2.75% for the June 30, 2019 actuarial valuation, and (iii) certain changes to demographic assumptions relating to the salary scale for most constituent groups, and modifications to the morality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved a new actuarial amortization policy with an effective date for actuarial valuations beginning on or after June 30, 2019, which includes (i) shortening the period over which actuarial gains and losses are amortized from 30 years to 20 years, (ii) requiring that amortization payments for all unfunded accrued liability bases established after the effective date be computed to remain a level dollar amount throughout the amortization period, (iii) removing the 5-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumptions changes and non-investment gains/losses established on or after the effective date and (iv) removing the 5-year ramp-down on investment gains/losses established after the effective date. While PERS expects that reducing the amortization period for certain sources of unfunded liability will increase future average funding ratios, provide faster recovery of funded status following market downturns, decrease expected cumulative contributions, and mitigate concerns over intergenerational equity, such changes may result in increases in future employer contribution rates.

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

The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make additional contributions to STRS in the future above those amounts required under AB 1469. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor

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

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

As of June 30, 2018, the District reported its proportionate shares of the net pension liabilities for the STRS and PERS programs to be \$48,089,080 and \$12,308,733, respectively. See also “APPENDIX B – 2017-18 Audited Financial Statements of the District – Note 9” attached hereto.

Other Post-Employment Benefits

Plan Benefits. The District administers a single-employer defined benefit other postemployment benefit plan (the “Plan”) that provides medical, dental and vision insurance benefits (the “Benefits”) for the participating groups of employees. Eligibility for the Benefits is based on age and service of the employee. Although all participants in the Plan are enrolled in either STRS or PERS, receipt of pension

benefits is not required for retiree health and welfare eligibility. As of May 2019, membership of the Plan consisted of 93 retirees and beneficiaries currently receiving the Benefits and 505 active eligible employees.

Certificated. Certificated employees who retire on or after age 58 with at least 12 years of service in the District are entitled to reimbursement for PERS medical benefits until age 65, or the time at which Medicare/MediCal commences. The reimbursement categories are \$250 per month for retirees with 12-19 years of District service, \$292 for retirees with 20-29 years of District service, and \$344 for retirees with 30 years or more of District service.

Classified. Classified employees who retire on or after age 62 with at least 10 years of service in the District are entitled to \$250 per month reimbursement for PERS medical benefits until age 65 or the time at which Medicare/MediCal commences.

Management. Management and Confidential employees who retire on or after age 58 with at least 10 years of service in the District are entitled to reimbursement for PERS medical benefits until age 65 or the time at which Medicare/MediCal commences. The Plan reimburses the covered retiree for the monthly PERS medical premium, not to exceed \$16,000 for single, \$19,000 for a two-party, and \$24,000 for a family.

All Employees. All retirees may choose to continue to enroll in a PERS medical plan after age 65. For as long as a retiree is enrolled, the District will pay a monthly administrative cost, which is equal to \$102 in 2019. The administrative cost is projected to increase each year by 5% of the Public Employees' Medical and Hospital Care Act minimum until it equals the minimum in 2024 and later years.

Funding Policy. The required contribution to the Plan is based on a projected pay-as-you-go basis to cover the costs of its current retirees. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents, with the retirees contributing the remaining portion. Individual employee contributions vary according to when such employee retired and coverage selected. In fiscal years 2014-15, 2015-16, 2016-17, 2017-18, and 2018-19, the District contributed \$108,601, \$98,661, \$118,728, \$197,347, and \$212,715 (estimated) to the Plan, respectively. The District has budgeted a contribution of \$78,000 to the Plan for the Benefits in fiscal year 2019-20.

The District has established an internal service fund to begin funding its UAAL (as described below) with respect to the Benefits; however, the internal service fund has not been irrevocably pledged to the payment of Benefits, and may be accessed upon Board approval for other purposes. As of June 5, 2019, \$8,570,328 was on deposit in the internal service fund. The District does not currently expect to make additional contributions to the internal service fund in fiscal year 2018-19.

Accrued Liability. The District has implemented *GASB Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB Statement No. 74") and *GASB Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB Statement No. 75"), pursuant to which the District has commissioned and received an actuarial study of its liability with respect to the Benefits. GASB Statements No. 74 and No. 75 (discussed below) require biennial actuarial valuations for all plans. The most recent actuarial study for the Plan, dated May 1, 2019 (the "Study"), was based on the July 1, 2016 actuarial valuation rolled forward to June 30, 2017. The Study concluded that the Total OPEB Liability (the "TOL") with respect to the Benefits was \$9,822,630. Because the District does not maintain a qualifying irrevocable trust, the District's Net OPEB Liability (the "NOL") is equal to the TOL. For more information regarding the District's other post-employment

benefit liability, see “APPENDIX B – 2017-18 Audited Financial Statements of the District – Note 10” attached hereto.

GASB Statement Nos. 74 and 75. On June 2, 2015, the GASB approved GASB Statement No. 74 and GASB Statement No. 75 with respect to pension accounting and financial reporting standards for public sector post-retirement benefit programs and the employers that sponsor them. GASB Statement No. 74 replaces GASB Statements No. 43 and 57 and GASB Statement No. 75 replaces GASB Statement No. 45.

Most of GASB Statement No. 74 applies to plans administered through trusts, in which contributions are irrevocable, trust assets are dedicated to providing other post-employment benefits to plan members, and trust assets are legally protected from creditors. GASB Statements No. 74 and No. 75 will require a liability for OPEB obligations, known as the Net OPEB Liability (the “NOL”), to be recognized on the balance sheet of the plan and the participating employer’s financial statements. In addition, an OPEB expense (service cost plus interest on total OPEB liability plus current-period benefit changes minus member contributions minus assumed earning on plan investments plus administrative expenses plus recognition of deferred outflows minus recognition of deferred inflows) will be recognized in the income statement of the participating employers. In the notes to its financial statements, employers providing other post-employment benefits will also have to include information regarding the year-to-year change in the NOL and a sensitivity analysis of the NOL to changes in the discount rate and healthcare trend rate. The required supplementary information will also be required to show a 10-year schedule of the plan’s net OPEB liability reconciliation and related ratios, and any actuarially determined contributions and investment returns.

Under GASB Statement No. 74, the measurement date must be the same as the plan’s fiscal year end, but the actuarial valuation date may be any date up to 24 months prior to the measurement date. For the TOL, if the valuation date is before the measurement date, the results must be projected forward from the valuation date to the measurement date using standard actuarial roll-forward techniques. For plans that are unfunded or have assets insufficient to cover the projected benefit payments, a discount rate reflecting a 20-year tax-exempt municipal bond yield or index rate must be used. For plans with assets that meet the GASB Statement No. 74 requirements, a projection of the benefit payments and future Fiduciary Net Position (the “FNP”) is performed based on the funding policy and assumptions of the plan, along with the methodology specified in GASB.

GASB Statement No. 74 has an effective date for plan fiscal years beginning after June 15, 2016 and GASB Statement No. 75 is effective for employer fiscal years beginning after June 15, 2017. The District first recognized GASB Statement No. 74 and GASB Statement No. 75 in its financial statements for fiscal year 2017-18. For more information, see “APPENDIX B – 2017-18 Audited Financial Statements of the District – Note 10” attached hereto.

Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District pools its risks with other school districts in the County as part of public entity risk pools, and pays annual premiums for its property and casualty, workers’ compensation, and liability insurance coverage.

Santa Clara County Schools Insurance Group (“SCCSIG”) provides workers’ compensation and property liability coverage for the District. Excess liability coverage for property liability amounts above \$1,000,000 is provided by Schools Excess Liability Fund (“SELF”) (together with SCCSIG, the “Joint Powers Agreements,” or, the “JPAs”).

District Debt Structure

Short-Term Debt. The District currently has no outstanding short-term debt obligations.

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

	Balance			Balance
	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
General Obligation Bonds	\$172,082,789	\$11,341,588	\$9,831,332	\$173,593,045
Net Pension Obligations	43,992,585	17,809,672	1,404,444	60,397,813
Net OPEB Liability	4,149,753	6,946,855	1,273,978	9,822,630
Compensated Absences	<u>73,975</u>	<u>6,215</u>	<u>--</u>	<u>80,190</u>
Total Long-term Debt	<u>\$220,299,102</u>	<u>\$36,104,330</u>	<u>\$12,509,754</u>	<u>\$243,893,678</u>

Source: Union Elementary School District.

General Obligation Bonds. The District received authorization at an election held on June 8, 1999, by at least two-thirds of the votes cast by eligible voters within the District, to issue \$92,000,000 maximum principal amount of general obligation bonds (the “1999 Authorization”). On December 16, 1999, the District caused the issuance of its Election of 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$38,902,591.25 (the “1999 Series A Bonds”). On December 27, 2001, the District caused the issuance of its Election of 1999 General Obligation Bonds, Series B, in the aggregate principal amount of \$29,481,171.60 (the “1999 Series B Bonds”). On September 28, 2004, the District caused the issuance of its Election of 1999 General Obligation Bonds, Series C, in the aggregate principal amount of \$11,998,877.25 (the “1999 Series C Bonds”). Simultaneously with the issuance of the 1999 Series C Bonds, the District issued its 2004 General Obligation Refunding Bonds, in the aggregate principal amount of \$20,240,000 (the “2004 Refunding Bonds”), the net proceeds of which were used to refund a portion of the then-outstanding 1999 Series B Bonds. On December 1, 2005, the District caused the issuance of its Election of 1999 General Obligation Bonds, Series D, in the aggregate principal amount of \$11,616,141.85 (the “1999 Series D Bonds”). Currently, \$1,218.05 of the 1999 Authorization remains unissued.

On November 29, 2012, the District issued its 2012 General Obligation Refunding Bonds, Series A (Federally Tax-Exempt, Bank Qualified), in the aggregate principal amount of \$7,100,000 (the “2012 Series A Refunding Bonds”), the proceeds of which were used to refund a portion of the then-outstanding 1999 Series C Bonds, 1999 Series D Bonds, and 2004 Refunding Bonds. Concurrently with the issuance of the 2012 Series A Refunding Bonds, the District issued its 2012 General Obligation Refunding Bonds, Series B (Federally Taxable), in the aggregate principal amount of \$11,050,000 (the “2012 Series B Refunding Bonds”), the proceeds of which were used to refund a portion of the then-outstanding 1999 Series C Bonds and 2004 Refunding Bonds.

The 2014 Authorization was approved by voters at an election held on June 3, 2014, by at least 55% of the votes cast by eligible voters within the District, to issue \$125,000,000 maximum principal amount of general obligation bonds. On January 29, 2015, the District concurrently caused the issuance of its 2014 Series A Bonds in the aggregate principal amount of \$22,280,000 and its 2014 Series B Bonds in the aggregate principal amount of \$8,100,000. On April 12, 2017, the District caused the issuance of its 2014 Series C Bonds in the aggregate principal amount of \$29,275,000. On September 6, 2017, the District concurrently caused the issuance of its 2014 Series C-1 Bonds in the aggregate principal amount of \$1,225,000 and its 2014 Series D Bonds in the aggregate principal amount of \$4,500,000. The Bonds are the sixth series of bonds issued under the 2014 Authorization. Following the issuance of the Bonds, \$45,620,000* of the 2014 Authorization will remain unissued.

The tables on the following pages show future debt service payments on all of the District's outstanding general obligation bonds, including the Bonds (assuming no optional redemptions).

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* Preliminary, subject to change.

COMBINED DEBT SERVICE SCHEDULE – 1999 AUTHORIZATION
Union Elementary School District

<u>Period Ending September 1</u>	<u>1999 Series A Bonds</u>	<u>1999 Series B Bonds</u>	<u>1999 Series C Bonds</u>	<u>1999 Series D Bonds</u>	<u>2012 Series A Refunding Bonds</u>	<u>2012 Series B Refunding Bonds</u>	<u>Total Annual Debt Service</u>
2019	\$5,250,000.00	--	--	--	\$1,397,350.00	\$2,024,632.16	\$8,671,982.16
2020	5,610,000.00	--	--	--	1,492,150.00	2,166,636.30	9,268,786.30
2021	5,995,000.00	\$3,145,000.00	--	--	366,150.00	403,048.70	9,909,198.70
2022	6,410,000.00	3,355,000.00	--	--	382,950.00	437,469.50	10,585,419.50
2023	6,850,000.00	3,580,000.00	\$780,000.00	--	103,550.00	--	11,313,550.00
2024	7,320,000.00	3,825,000.00	850,000.00	--	101,650.00	--	12,096,650.00
2025	--	11,905,000.00	925,000.00	--	94,512.50	--	12,924,512.50
2026	--	12,720,000.00	1,000,000.00	--	97,375.00	--	13,817,375.00
2027	--	--	7,375,000.00	\$7,190,000.00	--	--	14,565,000.00
2028	--	--	7,905,000.00	7,675,000.00	--	--	15,580,000.00
2029	--	--	8,405,000.00	8,075,000.00	--	--	16,480,000.00
2030	--	--	--	12,160,000.00	--	--	12,160,000.00
Total	<u>\$37,435,000.00</u>	<u>\$38,530,000.00</u>	<u>\$27,240,000.00</u>	<u>\$35,100,000.00</u>	<u>\$4,035,687.50</u>	<u>\$5,031,786.66</u>	<u>\$147,372,474.16</u>

Source: Union Elementary School District.

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COMBINED DEBT SERVICE SCHEDULE – ALL AUTHORIZATIONS
Union Elementary School District

Period Ending September 1	Total 1999 Authorization	2014 Authorization					The Bonds	Total Annual Debt Service
		2014 Series A Bonds	2014 Series B Bonds	2014 Series C Bonds	2014 Series C-1 Bonds	2014 Series D Bonds		
2019	\$8,671,982.16	\$1,017,487.50	\$50,000.00	\$1,205,737.50	\$36,750.00	\$463,462.50		
2020	9,268,786.30	1,017,487.50	50,000.00	1,205,737.50	36,750.00	579,687.50		
2021	9,909,198.70	1,017,487.50	420,000.00	1,205,737.50	36,750.00	348,100.00		
2022	10,585,419.50	1,017,487.50	402,600.00	1,205,737.50	36,750.00	481,462.50		
2023	11,313,550.00	1,017,487.50	383,200.00	1,205,737.50	36,750.00	521,675.00		
2024	12,096,650.00	1,017,487.50	364,000.00	1,205,737.50	36,750.00	670,762.50		
2025	12,924,512.50	2,177,487.50	--	1,205,737.50	36,750.00	146,250.00		
2026	13,817,375.00	1,354,487.50	--	1,205,737.50	461,750.00	373,212.50		
2027	14,565,000.00	974,737.50	--	1,930,737.50	824,000.00	--		
2028	15,580,000.00	1,063,775.00	--	1,504,487.50	--	--		
2029	16,480,000.00	1,140,181.26	--	1,557,737.50	--	--		
2030	12,160,000.00	1,089,031.26	--	1,672,487.50	--	--		
2031	--	1,139,231.26	--	1,726,287.50	--	--		
2032	--	1,187,781.26	--	1,802,987.50	--	--		
2033	--	1,264,681.26	--	1,851,837.50	--	--		
2034	--	1,324,031.26	--	1,932,618.76	--	--		
2035	--	1,391,281.26	--	2,004,018.76	--	--		
2036	--	1,425,500.00	--	2,092,168.76	--	--		
2037	--	1,483,156.26	--	2,190,043.76	--	--		
2038	--	1,553,468.76	--	2,278,293.76	--	--		
2039	--	1,625,968.76	--	2,349,043.76	--	--		
2040	--	1,695,500.00	--	2,452,793.76	--	--		
2041	--	1,765,000.00	--	2,547,543.76	--	--		
2042	--	1,843,750.00	--	2,639,212.50	--	--		
2043	--	1,926,000.00	--	2,746,962.50	--	--		
2044	--	2,016,250.00	--	2,827,400.00	--	--		
2045	--	2,098,750.00	--	2,940,600.00	--	--		
2046	--	2,193,500.00	--	5,340,400.00	--	--		
2047	--	2,284,500.00	--	--	--	--		
2048	--	2,386,500.00	--	--	--	--		
2049	--	2,488,500.00	--	--	--	--		
Total	<u>\$147,372,474.16</u>	<u>\$46,997,975.10</u>	<u>\$1,669,800.00</u>	<u>\$56,033,562.58</u>	<u>\$1,543,000.00</u>	<u>\$3,584,612.50</u>		

Source: Union Elementary School District.

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State personal income tax.

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

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

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

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO

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

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

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

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached hereto as APPENDIX A.

LIMITATION ON REMEDIES; BANKRUPTCY

General

State law contains certain safeguards to protect the financial solvency of school districts. See "DISTRICT FINANCIAL INFORMATION – Budget Process" herein. If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent, operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") on behalf of the school district for the adjustment of its debts, assuming that the school district meets certain other requirements contained in the Bankruptcy Code necessary for filing a petition under Chapter 9. School districts are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the automatic stay provisions of Bankruptcy Code Sections 362 and 922 generally would prohibit creditors from taking any action to collect amounts due from the District or to enforce any obligation of the District

related to such amounts due, without consent of the District or authorization of the bankruptcy court (although such stays would not operate to block creditor application of pledged special revenues to payment of indebtedness secured by such revenues). In addition, as part of its plan of adjustment in a Chapter 9 bankruptcy case, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

Statutory Lien

Pursuant to Government Code Section 53515, the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax, and such lien automatically arises, without the need for any action or authorization by the District or the Board, and is valid and binding from the time the Bonds are executed and delivered. See “THE BONDS – Security and Sources of Payment” herein. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the District, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed, unless the Bonds are determined to be secured by a pledge of “special revenues” within the meaning of the Bankruptcy Code and the pledged *ad valorem* property taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

Special Revenues

If the *ad valorem* property tax revenues that are pledged to the payment of the Bonds are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged *ad valorem* property tax revenues should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. State law prohibits the use of the tax proceeds for any purpose other than payment of the Bonds and the Bond proceeds can only be used to finance or refinance the acquisition or improvement of real property and other capital expenditures included in the proposition, so such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of *ad valorem* property tax revenues collected for the payments of bonds in the State, so no assurance can be given that a bankruptcy court would not hold otherwise.

Possession of Tax Revenues; Remedies

The County on behalf of the District is expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Bonds and may invest these funds in the County’s pooled investment fund, as described in “THE BONDS – Application and Investment of Bond Proceeds” herein and “APPENDIX F – SANTA CLARA COUNTY INVESTMENT POOL” attached hereto. If the County goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County does not voluntarily pay such tax revenues to the owners of the Bonds, it is not entirely clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues, how much time it would take for such

procedures to be completed, or whether such procedures would ultimately be successful. Further, should those investments suffer any losses, there may be delays or reductions in payments on the Bonds.

Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor's Rights

The proposed form of the approving opinion of Bond Counsel attached hereto as APPENDIX A is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. Bankruptcy proceedings, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

LEGAL MATTERS

Legality for Investment in California

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

Enhanced Reporting Requirements

Under Section 6049 of the Internal Revenue Code of 1986, as amended by the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"), interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

Continuing Disclosure

Current Undertaking. In connection with the issuance of the Bonds, the District has covenanted for the benefit of Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than nine months following the end of the District's fiscal year (which currently ends June 30), commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain listed events. The Annual Reports and notices of listed events will be filed by the District in accordance with the requirements of the Rule. The specific nature of the information to be contained in the Annual Reports or the notices of listed events is included in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

Previous Undertakings. Within the past five years, the District has failed to file in a timely manner the fiscal year 2013-14 and 2014-15 annual reports required in connection with its previous continuing disclosure undertakings. In connection with the annual reports described above, within the past five years, the District has never filed a notice of a failure to provide annual financial information, on or before the date specified in its previous continuing disclosure undertakings.

Absence of Material Litigation

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

There are certain lawsuits and claims pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims, if determined adverse to the District, would not materially affect the finances of the District.

Legal Opinion

The legal opinion of Bond Counsel, approving the validity of the Bonds, will be supplied to the original purchasers of the Bonds without cost. A copy of the proposed form of such legal opinion is attached to this Official Statement as APPENDIX A.

MISCELLANEOUS

Rating

Moody's has assigned the rating of "Aa1" to the Bonds. Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from the rating agency, at the following address: Moody's Investors Service, 7 World Trade Center at 250 Greenwich, New York, New York 10007.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of the rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Bonds.

The District has covenanted in a Continuing Disclosure Certificate to file on the Electronic Municipal Market Access website operated by Municipal Securities Rulemaking Board ("EMMA") notices of any rating changes on the Bonds. See "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from the rating agency prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Bonds are directed to the rating agency and its website and official media outlets for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

Financial Statements

The District's audited financial statements with supplemental information for the year ended June 30, 2018, the independent auditor's report of the District, and the related statements of activities and of cash flows for the year then ended, and the report of Chavan & Associates, LLP (the "Auditor") dated December 16, 2018, are attached to this Official Statement as APPENDIX B. In connection with the inclusion of the financial statements and the report of the Auditor thereon in APPENDIX B to this Official Statement, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

Underwriting

The Bonds are being purchased by Wells Fargo Bank, National Association (the "Underwriter"), pursuant to a contract for purchase and sale thereof by and between the Underwriter and the District (the "Purchase Contract"). The Underwriter has agreed to purchase the Bonds at a price of \$_____, which is equal to the initial principal amount of the Bonds of \$_____, plus [net] original issue premium of \$_____, and less the Underwriter's discount of \$_____.

The Purchase Contract for the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by Bond Counsel and certain other conditions. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

The Underwriter has provided the following information for inclusion in this Official Statement. The District does not guarantee the accuracy or completeness of the following information, and the inclusion thereof should not be construed as a representation of the District.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the sole underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Resolution providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended only 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, beneficial or otherwise, of any of the Bonds. This Official Statement and the delivery thereof have been duly approved and authorized by the District.

UNION ELEMENTARY SCHOOL DISTRICT

By: _____
Rita Sohal
Assistant Superintendent of Business
and Student Services

APPENDIX A

FORM OF OPINION OF BOND COUNSEL

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

_____, 2019

Board of Trustees
Union Elementary School District

Members of the Board of Trustees:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$ _____ Union Elementary School District Election of 2014 General Obligation Bonds, Series E (the “Bonds”). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based on our examination as bond counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, a greater than fifty-five percent vote of the qualified electors of the Union Elementary School District (the “District”) voting at an election held on June 3, 2014, and a resolution of the Board of Trustees of the District (the “Resolution”).
2. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* property taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.
3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.
4. Interest on the Bonds is exempt from State of California personal income tax.
5. The excess of the stated redemption price at maturity of a Bond over the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) constitutes original issue discount. For purposes of the previous sentence, the stated redemption price at maturity includes the aggregate sum of all debt service payments on Capital Appreciation Bonds. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner’s basis in the applicable Bond. Original issue discount that accrues to

the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

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

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

Stradling Yocca Carlson & Rauth

APPENDIX B

2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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**UNION SCHOOL DISTRICT
COUNTY OF SANTA CLARA
SAN JOSE, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2018



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE., SUITE 180
SAN JOSE, CA 95129

Union School District
County of Santa Clara

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Union School District
County of Santa Clara

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Union School District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Union 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

District 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.



Opinion

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

Emphasis of a Matter

Deficit Net Position

As of June 30, 2018, the District's net position in its Government-wide financial statements and its internal service fund was at a deficit mostly because of the long-term pension and OPEB liabilities and deferrals as reported in Notes 9 and 10. Our opinion is not modified with respect to this matter.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you go basis. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension plan contributions, schedule of proportionate share of net pension liability, and schedule of total OPEB liability, as listed 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.



Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards*, and the other information listed in the supplementary section of the table of contents, as required by the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Except for the organization schedule, schedule of charter schools, and schedule of financial trends and analysis, 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 and individual nonmajor fund financial statements, schedule of expenditures of federal awards, and the other information listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The organization schedule, schedule of charter schools and schedule of financial trends and analysis have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2018 on our consideration of The District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The District's internal control over financial reporting and compliance.

C & A LLP

December 16, 2018
San Jose, California

Management's Discussion and Analysis

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The discussion and analysis of the financial performance of the Union School District provides an overall review of the organization'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. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2017-18 are as follows:

- Total net position decreased by \$14,551,437, or 70%, from June 30, 2017 to June 30, 2018.
- General revenues accounted for \$64,730,138, or 90%, of all revenues.
- The District had \$78,117,104 in expenses offset by program specific revenues of \$7,425,591.
- Total fund balance decreased by \$29,480,941, or 39%, from June 30, 2017 to June 30, 2018.
- The District met the State required minimum reserve for economic uncertainty of 3% of general fund expenditure, transfers out and other uses (total outgo).
- The District's P-2 ADA increased from 5,607 ADA in fiscal year 2016-17 to 5,658 ADA in fiscal year 2017-18, an increase of 51 ADA, or .91%.

Using the Annual Report

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized to assist the reader in understanding the Union 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 Statement of Net Position and Statement of Activities comprise the district-wide financial statements and provide information about the activities of the whole district, presenting both an aggregate view of the organization'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 district's most significant fund, the General Fund, with all other (non-major) funds presented in total in one column.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overview of the Financial Statements

Government-wide Financial Statements - Statement of Net Position and the Statement of Activities

While this document contains the seven funds used by the Union School District to provide programs and activities, it provides a view of the district as a whole, looks at all financial transactions and asks the question, "How did we do financially during 2017-18"? The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenditures regardless of when cash is received or paid.

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 Union School District as a whole, the financial position of the organization has improved or diminished. The causes of the change may be the result of many factors, some financial, and some not. Non-financial factors include the district's property tax base, current property tax laws in California restricting revenue growth, facility condition, required educational programs, CalSTRS, and other factors.

In the Statement of Net Position and the Statement of Activities, the district reports governmental activities. Governmental activities are the activities in which most of the district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Reporting the Union School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district's most significant funds and not the organization as a whole.

Governmental Funds

Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The Union School District's most significant governmental funds are the General Fund, Building Fund and the Bond Interest and Redemption Fund.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The Union School District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary that compares the district's net position in 2016-17 and 2017-18:

Table 1 - Summary of Statement of Net Position					
Description	2018	2017	Change	Percentage Change	
Assets					
Current Assets	\$ 61,129,617	\$ 80,919,876	\$ (19,790,259)	-24.46%	
Capital Assets	132,481,074	117,831,163	14,649,911	12.43%	
Total Assets	\$ 193,610,691	\$ 198,751,039	\$ (5,140,348)	-2.59%	
Total Deferred Outflows of Resources	\$ 23,963,460	\$ 15,854,521	\$ 8,108,939	33.84%	
Liabilities					
Current Liabilities	\$ 4,734,259	\$ 7,499,718	\$ (2,765,459)	-36.87%	
Long-term Liabilities	243,893,678	220,299,102	23,594,576	10.71%	
Total Liabilities	\$ 248,627,937	\$ 227,798,820	\$ 20,829,117	9.14%	
Total Deferred Inflows of Resources	\$ 4,280,544	\$ 7,589,633	\$ (3,309,089)	-77.31%	
Net Position					
Net Investment in Capital Assets	\$ (11,218,751)	\$ (8,663,758)	\$ (2,554,993)	29.49%	
Restricted	12,901,009	14,210,927	(1,309,918)	-9.22%	
Unrestricted	(37,016,588)	(26,330,062)	(10,686,526)	-40.59%	
Total Net Position	\$ (35,334,330)	\$ (20,782,893)	\$ (14,551,437)	-70.02%	

Table 2 shows the changes in net position for fiscal year 2016-17 and 2017-18:

Table 2 - Summary of Changes in Statement of Activities					
Description	2018	2017	Change	Percentage Change	
Revenues					
Program revenues	\$ 7,425,591	\$ 6,130,440	\$ 1,295,151	21.13%	
General revenues:					
Property taxes	43,675,505	42,152,472	1,523,033	3.61%	
Parcel taxes	1,278,132	1,283,328	(5,196)	-0.40%	
Grants and entitlements - unrestricted	13,632,907	13,413,304	219,603	1.64%	
Other	6,143,594	6,442,237	(298,643)	-4.64%	
Special item					
Gain (loss) on disposal of capital assets	(3,608)	(55,640)	52,032	-93.52%	
Total Revenues	72,152,121	69,366,141	2,785,980	4.02%	
Program Expenses					
Instruction	40,635,251	39,276,836	1,358,415	3.46%	
Instruction-related services	8,584,102	9,128,977	(544,875)	-5.97%	
Pupil services	5,292,253	4,418,673	873,580	19.77%	
General administration	3,825,038	4,185,206	(360,168)	-8.61%	
Plant services	12,831,381	11,921,094	910,287	7.64%	
Ancillary services	91,873	114,572	(22,699)	-19.81%	
Enterprise services	206,354	177,731	28,623	16.10%	
Other outgo	487,639	486,976	663	0.14%	
Interest on long-term debt	6,163,213	7,552,715	(1,389,502)	-18.40%	
Total Expenses	78,117,104	77,262,780	854,324	1.11%	
Change in Net Position	(5,964,983)	(7,896,639)	1,931,656	-24.46%	
Beginning Net Position	(20,782,893)	(12,886,254)	(7,896,639)	-61.28%	
Prior Period Adjustments - Pensions	(2,919,905)	-	(2,919,905)	-100.00%	
Prior Period Adjustments - OPEB	(5,666,549)	-	(5,666,549)	-100.00%	
Ending Net Position	\$ (35,334,330)	\$ (20,782,893)	\$ (14,551,437)	-70.02%	

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Governmental Activities

The Statement of Activities shows the cost of program services and the grants and charges to school districts offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements, tax revenue, and other unrestricted local revenue.

Table 3 shows a summary of the net cost of services for fiscal year 2016-17 and 2017-18.

Table 3 - Net Cost of Services				
Description	2018	2017	Change	Percentage Change
Instruction	\$ 35,829,691	\$ 34,793,888	\$ 1,035,803	3.0%
Instruction-related services	8,132,210	8,713,784	(581,574)	-6.7%
Pupil services	4,097,258	3,331,140	766,118	23.0%
General administration	3,766,833	4,147,106	(380,273)	-9.2%
Plant services	12,394,648	11,904,702	489,946	4.1%
Ancillary services	83,129	100,609	(17,480)	-17.4%
Enterprise services	206,354	177,731	28,623	16.1%
Other outgo	18,177	410,665	(392,488)	-95.6%
Interest on long-term debt	6,163,213	7,552,715	(1,389,502)	-18.4%
Total Net Cost of Services	\$ 70,691,513	\$ 71,132,340	\$ (440,827)	-0.62%

Instruction expenditures include activities directly dealing with the teaching of pupils.

Instruction-related services include the activities involved with assisting staff with the content and process of educating students.

Pupil services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.

General administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.

Plant services involve keeping the school grounds, buildings, and equipment in effective working condition.

Ancillary services represent the expenditures associated with co-curricular and athletic programs for students of the district.

Enterprise services are activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs are financed or recovered primarily through user charges.

Other outgo includes tuitions and transfers of resources between Union School District and other educational agencies for services provided to students.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The Union School District's Funds

Table 4 provides an analysis of the fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
Description	2018	2017	Change	Percentage Change
General Fund	\$ 6,436,779	\$ 7,800,013	\$ (1,363,234)	-17.5%
Building Fund	29,893,220	45,587,868	(15,694,648)	-34.4%
Bond Interest and Redemption Fund	10,917,439	12,340,890	(1,423,451)	-11.5%
Nonmajor Funds	1,464,894	1,923,734	(458,840)	-23.9%
Internal Service Self Insurance Fund (OPEB)	(1,803,115)	8,737,653	(10,540,768)	-120.6%
Total Fund Balances	\$ 46,909,217	\$ 76,390,158	\$ (29,480,941)	-38.6%

The District continues good fiscal management and increasing revenues by improving attendance rates. Future good financial performance will depend on management's ability to continue to control expenses and maintain revenues.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- Changes made at first interim to account for the categorical programs carryover balances from 2016-17 fiscal year.
- Increase / decrease in appropriation of current year programs.

While the District's final budget for the general fund anticipated that revenues would fall short of expenditures by \$9,881,939 the actual results for the year showed a net decrease of \$8,765,153. After transfers in and out netting \$7,401,919, the final actual change in the general fund's fund balance was a deficit of \$1,363,234. Actual Expenditures were \$696,223 under budget for the year, due to unspent categorical programs and sites/departments carryover to 2018-19.

Capital Assets

Table 5 shows fiscal year 2016-17 balances compared to 2017-18.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2018	2017	Change	Percentage Change
Land	\$ 1,880,098	\$ 1,880,098	\$ -	0.00%
Work-in-Progress	17,487,362	13,129,986	4,357,376	33.19%
Site Improvements	8,176,789	962,889	7,213,900	749.19%
Buildings and Improvements	103,655,647	100,498,866	3,156,781	3.14%
Furniture and equipment	1,281,178	1,359,324	(78,146)	-5.75%
Total Capital Assets - Net	\$ 132,481,074	\$ 117,831,163	\$ 14,649,911	12.43%

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Long Term Debt

Table 6 summarizes the District's outstanding debt for the last two fiscal years.

Table 6 - Summary of Long-term Liabilities				
Description	2018	2017	Change	Percentage Change
General Obligation Bonds	\$ 173,593,045	\$ 172,082,789	\$ 1,510,256	0.88%
Net Pension Liabilities	60,397,813	43,992,585	16,405,228	37.29%
Net OPEB Obligation	9,822,630	4,149,753	5,672,877	136.70%
Compensated Absences	80,190	73,975	6,215	8.40%
Total Long-term Liabilities	\$ 243,893,678	\$ 220,299,102	\$ 23,594,576	10.71%

Factors bearing on the District's Future

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. District is projecting an enrollment increase of 88 students for 2018-19, 104 students for 2019-20 and 37 students for 2020-21.

Thanks to community support, Measure J - GO Bond of \$125M was approved by the voters in June 2014. District issued \$30 million in January 2015 and \$35 million in March 2017, a total of \$65 million. District utilized this additional resource to improve facilities, fencing for student safety, new STEAM labs for Elementary Schools and STEM lab for Dartmouth Middle School, solar shade structures, all-weather track at UMS, and voter-approved technology upgrades for student learning.

The District with the support of staff, parents, and community, successfully extended another ten years of parcel tax which will be expiring on June 30, 2026. The additional revenue allows the District to support and protect excellence in core academic programs such as English, reading, math, and science; attract and retain highly qualified and experienced teachers; expand rigorous science, technology, engineering and math programs district-wide; keep schools safe and help maintain smaller class sizes.

The State's economic situation is a major factor affecting the District's future. The financial well-being of the District is tied in large measure to the State funding, called the Local Control Funding Formula (LCFF). LCFF replaced the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. LCFF funding includes the Education Protection Account (EPA) which was created in November 2012 by Proposition 30, and was amended by Proposition 55 in November 2017. EPA increases the State revenue to K-12 education. Full implementation of the LCFF is projected for 2018-19; District's funding will only increase by Cost-Of-Living-Adjustment (COLA) in the future years.

There is no State funding to cover the cost of the employer contribution rate increases for CalSTRS and CalPERS. Furthermore, District needs to find resources to cover step and column increases; inflation of supplies and services; affordable care act and sick leave provision for the part-time employees.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, and investors, with a general overview of the District's finances and to show accountability for the money received. If you have questions regarding this report or need additional financial information, contact Rita Sohal, Assistant Superintendent of Business Services, Union School District, 5175 Union Avenue, San Jose, CA 95124-5434, (408) 377-8010 x 44202.

Basic Financial Statements

Union School District
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 60,286,675
Accounts receivable	818,368
Stores inventories	24,574
Total current assets	<u>61,129,617</u>
Noncurrent assets:	
Non-depreciable capital assets	19,367,460
Capital assets, net of depreciation	113,113,614
Total noncurrent assets	<u>132,481,074</u>
Total Assets	<u><u>\$ 193,610,691</u></u>
 Deferred Outflows of Resources	
Pension adjustments	\$ 22,925,762
OPEB adjustments	165,560
Deferred loss on early retirement of long-term debt	872,138
Total Deferred Outflows of Resources	<u><u>\$ 23,963,460</u></u>
 Liabilities	
Current liabilities:	
Accounts payable	\$ 2,828,043
Unearned revenue	824,216
Accrued interest	1,082,000
Total current liabilities	<u>4,734,259</u>
Long-term liabilities:	
Due within one year	5,700,357
Due after one year	238,193,321
Total long-term liabilities	<u>243,893,678</u>
Total Liabilities	<u><u>\$ 248,627,937</u></u>
 Deferred Inflows of Resources	
Pension adjustments	\$ 3,369,473
OPEB adjustments	911,071
Total Deferred Outflows of Resources	<u><u>\$ 4,280,544</u></u>
 Net Position	
Net Investment in Capital Assets	\$ (11,218,751)
Restricted for:	
Educational programs	1,127,810
Debt service	10,917,439
Capital projects	855,760
Total restricted	<u>12,901,009</u>
Unrestricted	<u>(37,016,588)</u>
Total Net Position	<u><u>\$ (35,334,330)</u></u>

The notes to the basic financial statement are an integral part of this statement.

Union School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
	Expenses	Services	Grants and	Changes in
			Contributions	Net Position
Governmental activities:				
Instruction	\$ 40,635,251	\$ -	\$ 4,805,560	\$ (35,829,691)
Instruction-related services:				
Supervision of instruction	3,061,119	-	298,066	(2,763,053)
Instruction library, media and technology	2,343,422	-	9,273	(2,334,149)
School site administration	3,179,561	-	144,553	(3,035,008)
Pupil services:				
Home-to-school transportation	527,086	-	-	(527,086)
Food services	1,051,701	612,780	315,616	(123,305)
All other pupil services	3,713,466	-	266,599	(3,446,867)
General administration:				
Data processing	152,406	-	-	(152,406)
All other general administration	3,672,632	-	58,205	(3,614,427)
Plant services	12,831,381	-	436,733	(12,394,648)
Ancillary services	91,873	-	8,744	(83,129)
Enterprise services	206,354	-	-	(206,354)
Transfers to other agencies	487,639	-	469,462	(18,177)
Interest on long-term debt	6,163,213	-	-	(6,163,213)
Total governmental activities	<u>\$ 78,117,104</u>	<u>\$ 612,780</u>	<u>\$ 6,812,811</u>	<u>(70,691,513)</u>
General revenues and special item:				
Taxes and subventions:				
Taxes levied for general purposes				33,084,950
Taxes levied for debt service				10,590,555
Taxes levied for other specific purposes				1,278,132
Federal and state aid not restricted to specific purposes				13,632,907
Interest and investment earnings				421,861
Miscellaneous				5,721,733
Special item - gain (loss) on disposal of capital assets				(3,608)
Total general revenues and special item				<u>64,726,530</u>
Change in net position				(5,964,983)
Net position beginning				(20,782,893)
Prior period adjustment - pensions				(2,919,905)
Prior period adjustment - GASB 75 other postemployment benefits				(5,666,549)
Net assets beginning - adjusted				<u>(29,369,347)</u>
Net position ending				<u>\$ (35,334,330)</u>

The notes to the basic financial statement are an integral part of this statement.

Union School District
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 2,777,772	\$ 36,365,503	\$ 10,888,457	\$ 1,465,755	\$ 51,497,487
Accounts receivable	565,225	158,178	28,982	29,582	781,967
Due from other funds	4,178,578	61,647	-	36,571	4,276,796
Stores inventories	-	-	-	24,574	24,574
Total Assets	\$ 7,521,575	\$ 36,585,328	\$ 10,917,439	\$ 1,556,482	\$ 56,580,824
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 979,622	\$ 1,818,233	\$ -	\$ 30,188	\$ 2,828,043
Due to other funds	98,218	4,118,015	-	-	4,216,233
Unearned revenue	6,956	755,860	-	61,400	824,216
Total Liabilities	1,084,796	6,692,108	-	91,588	7,868,492
Fund balances:					
Nonspendable:					
Revolving fund	5,300	-	-	-	5,300
Stores inventories	-	-	-	24,574	24,574
Restricted for:					
Educational programs	1,127,810	-	-	-	1,127,810
Debt service	-	-	10,917,439	-	10,917,439
Capital projects	-	29,893,220	-	855,760	30,748,980
Assigned for:					
Deferred maintenance projects	-	-	-	474,330	474,330
Capital facilities projects	-	-	-	110,230	110,230
Educational programs	3,411,903	-	-	-	3,411,903
Unassigned:					
Economic uncertainties	1,891,766	-	-	-	1,891,766
Total Fund Balances	6,436,779	29,893,220	10,917,439	1,464,894	48,712,332
Total Liabilities and Fund Balances	\$ 7,521,575	\$ 36,585,328	\$ 10,917,439	\$ 1,556,482	\$ 56,580,824

The notes to the basic financial statement are an integral part of this statement.

Union School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2018

Total fund balances - governmental funds	\$ 48,712,332
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Amounts reported in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets at cost	\$ 181,811,341	
Accumulated depreciation	<u>(49,330,267)</u>	132,481,074

Interest payable on long-term debt does not require the use of current financial resources and, therefore, is not reported in the governmental funds.	(1,082,000)
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An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	(1,803,115)
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The differences from pension plan assumptions in actuarial valuations are not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the Statement of Net Position.	19,556,289
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The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred inflow in the government-wide statement of net position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements.	872,138
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of:

General obligation bonds	\$ 173,593,045	
Net pension obligations	60,397,813	
Compensated absences (vacation)	<u>80,190</u>	<u>(234,071,048)</u>

Total net position - governmental activities	<u><u>\$ (35,334,330)</u></u>
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Union School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF sources	\$ 44,790,137	\$ -	\$ -	\$ -	\$ 44,790,137
Federal revenue	1,433,630	-	-	280,767	1,714,397
Other state	5,297,196	-	66,357	448,936	5,812,489
Other local	2,487,141	6,574,436	10,609,285	796,836	20,467,698
Total revenues	54,008,104	6,574,436	10,675,642	1,526,539	72,784,721
Expenditures:					
Current					
Instruction	39,752,329	-	-	-	39,752,329
Instruction-related services:					
Supervision of instruction	3,002,368	-	-	-	3,002,368
Instruction library, media and technology	2,262,505	-	-	-	2,262,505
School site administration	3,119,684	-	-	-	3,119,684
Pupil services:					
Home-to-school transportation	517,160	-	-	-	517,160
Food services	10,929	-	-	1,020,967	1,031,896
All other pupil services	3,643,535	-	-	-	3,643,535
General administration:					
Data processing	128,167	-	-	-	128,167
All other general administration	3,603,470	-	-	-	3,603,470
Plant services	5,884,904	100,669	-	51,174	6,036,747
Facilities acquisition and construction	64,070	20,436,536	-	1,005,809	21,506,415
Ancillary services	90,143	-	-	-	90,143
Enterprise Services	206,354	-	-	-	206,354
Transfers to other agencies	487,639	-	-	-	487,639
Debt service:					
Principal	-	-	6,499,152	-	6,499,152
Interest and fees	-	57,864	5,599,941	-	5,657,805
Total expenditures	62,773,257	20,595,069	12,099,093	2,077,950	97,545,369
Excess (deficiency) of revenues over (under) expenditures	(8,765,153)	(14,020,633)	(1,423,451)	(551,411)	(24,760,648)
Other financing sources (uses):					
Transfers in	7,687,423	-	-	92,571	7,779,994
Transfers out	(285,504)	(7,399,015)	-	-	(7,684,519)
Proceeds from bond issuance	-	5,725,000	-	-	5,725,000
Premium from bond issuance	-	-	-	-	-
Total other financing sources (uses)	7,401,919	(1,674,015)	-	92,571	5,820,475
Net changes in fund balances	(1,363,234)	(15,694,648)	(1,423,451)	(458,840)	(18,940,173)
Fund balances beginning	7,800,013	45,587,868	12,340,890	1,923,734	67,652,505
Fund balances ending	\$ 6,436,779	\$ 29,893,220	\$ 10,917,439	\$ 1,464,894	\$ 48,712,332

The notes to the basic financial statement are an integral part of this statement.

Union School District
Reconciliation of the Governmental Funds Statement of
Revenues and Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Total net change in fund balances - governmental funds \$ (18,940,173)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Additions for capital assets	\$	18,300,420	
Depreciation expense		(3,646,901)	14,653,519

Governmental funds do not report gains and losses on disposal of capital assets. However, in the government-wide Statement of Activities, the cost of disposal of capital assets net any proceeds is accounted for as a special item. (3,608)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Proceeds from issuance of bond	\$	(5,725,000)	
Repayment of bond principal		6,499,152	774,152

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. (1,212,784)

In governmental funds, deferred loss on early retirement of long-term debt is recognized as other financing uses. In the government-wide statements, the deferred losses on early retirement of long-term debt is amortized over the life of the debt. The difference between other financing uses and amortization is: (109,000)

Issuance costs, discounts and premiums related to bond issues is recorded as other financing sources and uses in the fund financial statements, but is recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:

Amortization of bond premiums 336,332

In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used. (6,215)

An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The net revenue of the internal service fund is reported with governmental activities. (724,466)

Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements. (2,620,740)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 1,888,000

Changes in net position of governmental activities \$ (5,964,983)

Union School District
Proprietary Funds
Statement of Net Position
June 30, 2018

	Internal Service Self Insurance Fund (OPEB)
Assets	
Cash and investments	\$ 8,789,188
Accounts receivable	36,401
	<u> </u>
Total Assets	<u><u>\$ 8,825,589</u></u>
Deferred Outflows of Resources	
OPEB adjustments	<u>\$ 165,560</u>
	<u> </u>
Total Deferred Outflows of Resources	<u><u>\$ 165,560</u></u>
Liabilities	
Current liabilities:	
Due to other funds	\$ 60,563
Long-term liabilities:	
Net OPEB liability	<u>9,822,630</u>
	<u> </u>
Total Liabilities	<u><u>\$ 9,883,193</u></u>
Deferred Inflows of Resources	
OPEB adjustments	<u>\$ 911,071</u>
	<u> </u>
Total Deferred Inflows of Resources	<u><u>\$ 911,071</u></u>
Net Position	
Unrestricted	<u>\$ (1,803,115)</u>
	<u> </u>
Total Net Position	<u><u>\$ (1,803,115)</u></u>

The notes to the basic financial statement are an integral part of this statement.

Union School District
Proprietary Funds
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Internal Service Self Insurance Fund (OPEB)
Operating Revenues	\$ 163,616
Operating Expenses	<u>917,399</u>
Operating Income (Loss)	(753,783)
Nonoperating Revenues (Expenses):	
Interest income	<u>124,792</u>
Income Before Transfers	(628,991)
Transfers from Other Funds	192,933
Transfers to Other Funds	<u>(288,408)</u>
Change in Net Position	(724,466)
Prior Period Adjustment - Other Postemployment Benefits	(9,816,302)
Beginning Net Position	<u>8,737,653</u>
Ending Net Position	<u><u>\$ (1,803,115)</u></u>

The notes to the basic financial statement are an integral part of this statement.

Union School District
Proprietary Funds
Statement of Cash Flows
June 30, 2018

	Internal Service Self Insurance Fund (OPEB)
Cash Flows from Operating Activities	
Cash received from in-district premiums contributions	\$ 163,616
Cash paid for premiums and benefits	(165,560)
Net cash provided by (used for) operating activities	<u>(1,944)</u>
Cash Flows from Noncapital Financing Activities	
Transfers from Other Funds	181,089
Transfers to Other Funds	(252,402)
Net cash provided by (used for) noncapital financing activities	<u>(71,313)</u>
Cash Flows from Investing Activities	
Interest income	124,792
Net cash provided by investing activities	<u>124,792</u>
Increase (decrease) in Cash and Cash Equivalents	51,535
Cash and Cash Equivalents - Beginning	8,737,653
Cash and Cash Equivalents - Ending	<u><u>\$ 8,789,188</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income (loss)	\$ (753,783)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Change in operating assets and liabilities:	
Deferred outflows of resouces	(165,560)
Deferred inflows of resouces	911,071
Net OPEB liability	6,328
Net cash provided by (used for) operating activities	<u><u>\$ (1,944)</u></u>

The notes to the basic financial statement are an integral part of this statement.

Union School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018

	Student Body Agency Fund Total
Assets	
Cash on hand and in banks	\$ 185,535
Total Assets	<u>\$ 185,535</u>
Liabilities	
Due to student groups	<u>\$ 185,535</u>
Total Liabilities	<u>\$ 185,535</u>

The notes to the basic financial statement are an integral part of this statement.

Notes to the Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Union School District (the "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 as prescribed by the U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues result from non-exchange transactions or ancillary activities.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45 to 60 days after year-end. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Deferred Outflows/Deferred Inflows:

A deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to pensions from the implementation of GASB Statement No. 68.

In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue. Security deposits for leased facilities are recorded as unearned in the government-wide statements and in the fund statements.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, than unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds and may not be used for any purposes other than those for which the bonds were issued.

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund.

The District maintains two nonmajor special revenue funds.

- The *Cafeteria Fund* is used to account separately for federal, state and local resources to operate the food service program and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program.
- The *Deferred Maintenance Fund* is used to account for state apportionments and the District's contributions for deferred maintenance purposes and for items of maintenance approved by the State Allocation Board.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains two nonmajor capital projects fund.

- The *Capital Facilities Fund* is used to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development. Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer.
- The *Special Reserve Fund for Capital Projects* is used to accumulate resources for special projects including modernization projects, acquisition of furniture and equipment for all school sites, and the reconstruction of school sites.

Proprietary Funds:

Internal Service Funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are generally intended to be self-supporting.

- The *Self Insurance Fund (OPEB)* accounts for other post-employment benefit premiums, such as retirement health, dental and vision, and the annual required contributions toward the net OPEB obligation.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. 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 during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

Formal budgetary integration was employed 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. Expenditures cannot, and did not, legally exceed appropriations by major object account.

G. 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 on June 30.

H. Retirement Benefits

Pensions

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

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Union School District
Notes to Basic Financial Statements
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Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

I. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation. In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the 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. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

The following is a summary of the District's authorized investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	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 value	None
Medium-Term 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 Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

c) Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. 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. Inventories consist of expendable food and supplies held for consumption.

Prepaid expenditures

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

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset’s lives are not capitalized, but are expensed as incurred.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	15
Buildings	40
Portable buildings	15-20
Building improvements	15-20
Furniture and fixtures	10-15
Playground equipment	15-20
Food services & transportation equipment	5-15
Vehicles	5
Computer system and equipment	5
Office equipment	5

e) Compensated Absences

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified and certificated school members who retire after January 1, 1999. At retirement, each classified member will receive 0.004 year of service credit for each day of unused sick leave, and each certificated member will receive 0.0054 year of service credit for each day of unused sick leave.

f) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts as well as issuance costs, when applicable, are deferred and amortized over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

g) Fund Balance Classifications

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. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 3 percent of general fund operating expenditures and other financing uses.

Union School District
Notes to Basic Financial Statements
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In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of trustees.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent and the Assistance Superintendent of Business Services.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

h) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Educational Program restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Debt service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Capital projects restrictions will be used for the acquisition and construction of capital facilities.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

i) Operating Revenue and Expenses (Proprietary Funds)

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating revenues are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

j) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

k) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District pools its risks with other school districts in the County as a part of two public entity risk pools. The District pays annual premiums for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels. See Note 8 for further disclosure.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

l) Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. 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/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 among governmental funds are eliminated as part of the reconciliation to the government-wide financial statements.

m) Accounting Estimates

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

n) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles.

J. Implemented New Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

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

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

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of **\$9,816,302** was shown as a restatement of net position in the District's OPEB internal service fund, and the difference between the accumulated Net OPEB obligation per GASB 45 and the net OPEB liability per GASB 75 of **\$5,666,549** was shown as a restatement to net position in the Statement of Activities.

GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the District's financial statements.

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Union School District
Notes to Basic Financial Statements
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This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, 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. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2018 is as follows:

Deposit or Investment	Carrying Amount	Fair Value
<i>Government-Wide Statements:</i>		
Cash in county treasury investment pool	\$ 60,271,885	\$ 60,132,282
Cash on hand and in banks	9,490	9,490
Cash in revolving fund	5,300	5,300
Total Government-Wide Cash and Investments	60,286,675	60,147,072
<i>Fiduciary Funds:</i>		
Cash on hand and in banks	185,535	185,535
Total Cash and Investments	\$ 60,472,210	\$ 60,332,607

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2018, the bank balance of the District's accounts with banks was \$205,200, which was fully insured by FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with Education Code Section 41001. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

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

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Policies and Practices

The District is authorized under California Government Code Section 53635 to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of Santa Clara Investment Pool. The pool has a fair value of approximately \$7.5 billion and an amortized book value of \$7.6 billion. The average maturity of the pool was 479 days and holds no derivative products.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of Santa Clara Investment Pool is governed by the County's general investment policy. The investment with the County of Santa Clara Investment Pool is rated at least Aa1 by Moody's Investor Service.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Concentration of Credit Risk

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. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2018:

Receivables	General Fund	Building Fund	Bond Interest and Redemption Fund	Self Insurance Fund	Nonmajor Funds	Total
Federal Government:	\$ 14,333	\$ -	\$ -	\$ -	\$ 6,269	\$ 20,602
State Government	286,525	-	-	-	2,544	289,069
Unrestricted	264,367	158,178	28,982	36,401	20,769	508,697
Total Accounts Receivable	<u>\$ 565,225</u>	<u>\$ 158,178</u>	<u>\$ 28,982</u>	<u>\$ 36,401</u>	<u>\$ 29,582</u>	<u>\$ 818,368</u>

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2018 were as follows:

Capital Assets	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Land - not depreciable	\$ 1,880,098	\$ -	\$ -	\$ 1,880,098
Work-in-progress - not depreciable	13,129,986	9,275,199	(4,917,823)	17,487,362
Site improvements	1,396,802	7,394,266	-	8,791,068
Building and improvements	144,464,112	6,450,271	-	150,914,383
Furniture and equipment	2,682,468	98,507	(42,545)	2,738,430
Total capital assets	163,553,466	23,218,243	(4,960,368)	181,811,341
Less accumulated depreciation for:				
Site improvements	433,913	180,366	-	614,279
Building and improvements	43,965,246	3,293,490	-	47,258,736
Furniture and equipment	1,323,144	173,045	(38,937)	1,457,252
Total accumulated depreciation	45,722,303	3,646,901	(38,937)	49,330,267
Total capital assets - net depreciation	<u>\$ 117,831,163</u>	<u>\$ 19,571,342</u>	<u>\$ (4,921,431)</u>	<u>\$ 132,481,074</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 113,730
Supervision of instruction	1,126
Instruction library, media and technology	37,492
Data procession services	21,779
Plant services	3,472,774
Total depreciation expense	<u>\$ 3,646,901</u>

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), 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/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 among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund receivables and payables (*Due From/Due To*) consisted of the following as of June 30, 2018:

Fund	Due From	Due To
General Fund	\$ 4,178,578	\$ 98,218
Building Fund	61,647	4,118,015
Internal Service Self-Insurance Fund	-	60,563
Nonmajor Funds	36,571	-
Totals	<u>\$ 4,276,796</u>	<u>\$ 4,276,796</u>

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

Fund	Transfers In	Transfers Out
General Fund	\$ 7,687,423	\$ 285,504
Building Fund	-	7,399,015
Internal Service Self Insurance Fund (OPEB)	192,933	288,408
Nonmajor Funds	92,571	-
Totals	<u>\$ 7,972,927</u>	<u>\$ 7,972,927</u>

6. LONG-TERM DEBT

Schedule of Changes in Long-term Debt

A schedule of changes in long-term debt for the fiscal year ended June 30, 2018, is shown below:

Long-term Debt	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds	\$ 172,082,789	\$ 11,341,588	\$ 9,831,332	\$ 173,593,045	\$ 5,700,357
Net Pension Obligations	43,992,585	17,809,672	1,404,444	60,397,813	-
Net OPEB Liability	4,149,753	6,946,855	1,273,978	9,822,630	-
Compensated Absences	73,975	6,215	-	80,190	-
Total Long-term Debt	<u>\$ 220,299,102</u>	<u>\$ 36,104,330</u>	<u>\$ 12,509,754</u>	<u>\$ 243,893,678</u>	<u>\$ 5,700,357</u>

Payments on the general obligation bonds were made from the Bond Interest and Redemption Fund using local revenues. Compensated absences, pensions and net OPEB obligations were paid by the fund for which the employee worked or the OPEB internal service fund.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

General Obligation Bonds Payable

The following summarizes the general obligation bonds outstanding as of June 30, 2018:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2017	Additions/ Adjustments	Issued (Redeemed)	Bonds Outstanding June 30, 2018
1999 GOB, Series A	1999	2025	5.1-6.2%	\$ 38,902,591	\$ 12,241,462	\$ -	\$ (1,599,152)	\$ 10,642,310
1999 GOB, Series B	2001	2027	5.71-5.76%	29,481,172	10,336,172	-	-	10,336,172
1999 GOB, Series C	2004	2030	2.62-5.48%	11,998,877	7,523,877	-	-	7,523,877
1999 GOB, Series D	2005	2031	3.25-5.29%	11,616,142	10,346,142	-	-	10,346,142
2012 Refunding Bond, Series A	2012	2026	2-4%	7,100,000	5,875,000	-	(1,025,000)	4,850,000
2012 Refunding Bond, Series B	2012	2022	1.073-2.934%	11,050,000	8,125,000	-	(1,585,000)	6,540,000
2014 GOB, Series A & B	2015	2049	2-5%	30,380,000	26,005,000	-	(2,290,000)	23,715,000
2014 GOB, Series C	2017	2046	3.125-5%	29,275,000	29,275,000	-	-	29,275,000
2014 GOB, Series C-1 & D	2018	2027	2.25-3%	5,725,000	-	5,725,000	-	5,725,000
Subtotal General Obligation Bonds				175,528,782	109,727,653	5,725,000	(6,499,152)	108,953,501
Bond Premiums				-	5,772,696	-	(336,332)	5,436,364
Accreted Interest				-	56,582,440	5,616,588	(2,995,848)	59,203,180
Total General Obligation Bonds				\$ 175,528,782	\$ 172,082,789	\$ 11,341,588	\$ (9,831,332)	\$ 173,593,045

The Union School District General Obligation Bonds, Election of 1999, Series A (the “1999 GOB, Series A”), in the aggregate principal amount of \$38,902,591, were issued by the County of Santa Clara on behalf of the District. The Series A bonds were authorized at a special election of the registered voters of the District held on June 8, 1999, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$92,000,000 principal amount of general obligation bonds to be used for the repair of school facilities.

The Union School District General Obligation Bonds, Series B (the “1999 GOB, Series B”), in the aggregate amount of \$29,481,172 were issued by the County of Santa Clara on behalf of the District to raise money to be used for the repair of school facilities.

The Union School District General Obligation Bonds, Series C (the “1999 GOB, Series C”), in the aggregate principal amount of \$11,998,877, and the 2004 General Obligation Refunding Bonds, in the aggregate principal amount of \$20,240,000, were issued by the County of Santa Clara on behalf of the District to raise money to be used to upgrade, acquire, construct and equip school facilities and to advance refund the aggregate principal amount outstanding of the current interest serial bonds (“1999 GOB, Series B”) respectively.

During November of 2005, the Union School District General Obligation Bonds, Series D (the “1999 GOB, Series D”), in the aggregate amount of \$11,616,142 were issued by the County of Santa Clara on behalf of the District to raise money to be used for the upgrade, acquisition, and construction of school facilities.

During the fiscal year 2012-13, the District issued \$18,150,000 in General Obligation Refunding Bonds (the “2012 Refunding Bond, Series A and B”) with a premium of \$925,000. The bonds were issued to refund and partially defease general obligation bonds which were issued previously to improve schools. Payments of principal and interest on the bonds will be made payable on March 1 and September 1 of each year commencing March 1, 2013 from the collection of *ad valorem* taxes upon all property subject to taxation by the District. The District defeased the general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As a result of the defeasance, the District recognized a deferred loss on early retirement of long-term debt of \$1,526,138 but saved \$1,157,177 in future cash flows from debt service. The present value of the net savings was \$1,124,625.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

During the 2014-15 fiscal year, the Union School District 2014 General Obligation Bonds, Series A and B (the “2014 GOB Series A & B”), in the aggregate principal amount of \$30,380,000, were issued by the County of Santa Clara on behalf of the District to raise money to be used to upgrade, acquire, construct and equip school facilities. The bonds were issued at a premium of \$3,022,615.

During the 2016-17 fiscal year, the Union School District 2014 General Obligation Bonds, Series C (the “2014 GOB, Series C”), in the aggregate principal amount of \$29,275,000, were issued by the County of Santa Clara on behalf of the District to raise money to be used to upgrade, acquire, and construct and equip school facilities.

On September 6, 2017, the District issued Series C-1 bonds of \$1,225,000 (Construction) and Series D bonds of \$4,500,000 (Technology) totaling \$5,725,000 to raise money to be used to upgrade, acquire, and construct and equip school facilities. These were delayed deliveries that were originally authorized by the Board on February 13, 2017.

The Bonds are payable solely from ad valorem property taxes levied and collected by the County of Santa Clara. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, upon all property subject to taxation by the District without limitation or rate or amount (except certain personal property which is taxable at limited rates).

The annual debt service requirements of the District’s general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 5,700,357	\$ 6,007,409	\$ 11,707,766
2020	5,141,065	6,253,369	11,394,434
2021	5,598,857	6,499,004	12,097,861
2022	3,995,910	8,922,455	12,918,365
2023	4,029,154	9,674,774	13,703,928
2024-2028	16,973,498	58,822,599	75,796,097
2029-2033	20,869,660	42,221,799	63,091,459
2034-2038	4,895,000	9,481,231	14,376,231
2039-2043	10,580,000	7,479,341	18,059,341
2044-2048	13,530,000	3,642,113	17,172,113
2049-2052	17,640,000	231,750	17,871,750
Total Debt Service	\$ 108,953,501	\$ 159,235,844	\$ 268,189,345

7. COMMITMENTS AND CONTINGENCIES

Litigation

The District may be exposed to various litigation arising from the normal course of business. Management believes, based on consultation with legal counsel, that the ultimate resolution of legal matters will not have a material adverse effect on the District’s financial position or results of operations.

Federal and State Allowances, Awards, and Grants

The District has received federal and state 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 have a material adverse effect on the overall financial position of the District at June 30, 2018.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Construction Commitments

Through December 16, 2018, the date on which the financial statements were available to be issued, the District had encumbered \$4,307,389 of the Measure J Bonds proceeds to be spent on capital projects in the fiscal year ended June 30, 2019.

8. JOINT POWERS AGREEMENTS

The District is a member of the Santa Clara County Schools Insurance Group (SCCSIG) public entity risk pool (JPA). The District pays an annual premium to this entity for their workers compensation and property liability coverage. Excess liability coverage for property liability amounts above \$1,000,000 is provided by SELF. The relationship between the District, the pools, and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

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

The following is a summary of each risk management JPA's most recent financial statement information:

	SCCSIG	SELF
	June 30, 2017	June 30, 2017
Total Assets & Deferrals	\$ 21,729,401	\$ 154,826,708
Total Liabilities & Deferrals	6,341,418	122,637,079
Total Equity	15,387,983	32,189,629
Total Revenues	36,088,227	11,968,752
Total Expenditures	34,053,133	23,063,637

9. EMPLOYEE RETIREMENT SYSTEMS

A. California Public Employees Retirement System (CalPERS/PERS) Pension Plan

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's CalPERS Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

	CalPERS	
	Classic	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	7.0%	6.0%
Required employer contribution rates	15.531%	15.531%

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions were as follows:

	CalPERS
Contributions - employer	\$ 1,139,859

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

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

	Proportionate Share of Net Pension Liability/(Asset)
CalPERS	\$ 12,308,733

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to 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 plan relative to the projected contributions of all participating employers, actuarially determined.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

The District's proportionate share of the net pension liability for the Plan as of measurement dates, June 30, 2016 and 2017, was as follows:

	CalPERS
Proportion - June 30, 2017	0.04980%
Proportion - June 30, 2018	0.05156%
Change - Increase/(Decrease)	<u>0.00176%</u>

For the year ended June 30, 2016, the District recognized pension expense of \$2,554,704 for the Plan.

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

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 1,797,884	\$ 144,920
Differences between Expected and Actual Experience	440,971	-
Differences between Projected and Actual Investment Earnings	425,798	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	15,624
Change in Employer's Proportion	456,227	22,373
Pension Contributions Made Subsequent to Measurement Date	1,139,859	-
Total	<u>\$ 4,260,739</u>	<u>\$ 182,917</u>

The District reported \$1,139,859 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Deferred Outflows/(Inflows) of Resources
Fiscal Year Ending June 30:	CalPERS
2019	\$ 990,026
2020	1,264,312
2021	916,791
2022	(233,167)
2023	-
Thereafter	-
Total	<u>\$ 2,937,962</u>

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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, 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 the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

The table below reflects 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

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

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

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

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the 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:

	CalPERS
1% Decrease	6.15%
Net Pension Liability \$	18,110,090
Current	7.15%
Net Pension Liability \$	12,308,733
1% Increase	8.15%
Net Pension Liability \$	7,496,021

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

B. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Benefits Provided - STRS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law. The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a % of eligible compensation	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2018 the contributions were as follows:

	CalSTRS
Employer Contributions	\$ 4,171,121
State Contributions	2,784,065
Total	<u>\$ 6,955,186</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

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

	Proportionate Share of Net Pension Liability/(Asset)
District	\$ 48,089,080
State	17,874,711
Total	<u>\$ 65,963,791</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to 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 plan relative to the projected contributions of all participating employers, actuarially determined.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

The District's proportionate share of the net pension liability for the Plan as of measurement dates, June 30, 2016 and 2017, was as follows:

	<u>CalSTRS</u>
Proportion - June 30, 2017	0.04800%
Proportion - June 30, 2018	0.05200%
Change - Increase/(Decrease)	<u>0.00400%</u>

For the year ended June 30, 2018, the District recognized pension expense of \$3,968,790 (\$6,956,177 with the State On-Behalf contribution) for the Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalSTRS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 8,909,160	\$ -
Differences between Expected and Actual Experience	177,840	838,760
Differences between Projected and Actual Investment Earnings	-	1,280,760
Differences between Employer's Contributions and Proportionate Share of Contributions	1,476,525	10,778
Change in Employer's Proportion	3,930,377	1,056,257
Pension Contributions Made Subsequent to Measurement Date	4,171,121	-
Total	<u>\$ 18,665,023</u>	<u>\$ 3,186,555</u>

The District reported \$4,171,121 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources CalSTRS
2019	\$ 1,060,950
2020	2,931,650
2021	2,242,130
2022	987,630
2023	1,897,793
Thereafter	2,187,194
Total	<u>\$ 11,307,347</u>

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Varies by age and service. Approximately 6% average over career including inflation

(2) Net of pension plan investment expenses and administrative expenses, including inflation

(3) Derived using CalSTRS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.1 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.1 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The table below reflects 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.

Asset Class	New Strategic Allocation	Long-Term Expected Rate of Return ⁽¹⁾
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 / Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash / Liquidity	2.00%	-1.00%
Total	100.00%	

⁽¹⁾ 20 year average

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the 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:

	<u>CalSTRS</u>
1% Decrease	6.10%
Net Pension Liability \$	70,610,800
Current	7.10%
Net Pension Liability \$	48,089,080
1% Increase	8.10%
Net Pension Liability \$	29,812,120

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the participating groups of employees. Eligibility for retiree health benefits is based on age and service of the employee. Although all participants are enrolled in either the State Teachers' Retirement System (STRS) or California Public Employees' Retirement System (PERS), receipt of pension benefits is not required for retiree health and welfare eligibility.

Benefits

Certificated (UDEA) - Certificated employees who retire on or after age 58 with at least 12 years of service in the District are entitled to reimbursement for CalPERS medical benefits until age 65 or when Medicare/MediCal commences. The reimbursement categories are \$250 per month for retirees with 12-19 years District service, \$292 for 20-29 years District service, and \$334 for at least 30 years District service.

Classified (CSEA) - Classified employees who retire on or after age 60 with at least 10 years of service in the District are entitled to \$250 per month reimbursement for CalPERS medical benefits until age 65 or when Medicare/MediCal commences.

Management and Confidential - Management and Confidential employees who retire on or after age 58 with at least 10 years of service in the District are entitled to reimbursement for CalPERS medical benefits until age 65 or when Medicare/MediCal commences. The plan reimburses the covered retiree for the monthly CalPERS medical premium, not to exceed these amounts:

- Single coverage: \$16,000 per year
- Two-party coverage: \$19,000 per year
- Family coverage: \$24,000 per year

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

All Employees - All retirees may choose to continue enrollment in a CalPERS medical plan after age 65. For as long as the retiree is enrolled, the District will pay the CalPERS minimum benefit. The amount of the annual increase is projected to increase each year by 5% of the PEMHCA minimum until it equals the PEMHCA minimum in 2024 and later years.

Contributions

Total benefit payments included in the measurement period were \$197,347 which were considered contributions into the plan, but no contributions were made into a trust. The District's contributions and/or benefit payments were .54% of covered payroll during the measurement period June 30, 2017 (reporting period June 30, 2018). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	3.56%
Inflation	2.75%
Payroll Increases	3.00%
Municipal Bond Rate	3.56%
Healthcare Trend Rate	5 to 5.5%
Mortality	2010 CalSTRS and 2014 CalPERS Misc

Discount Rate

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

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017 (measurement date) and was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Changes in the Total OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018:

Fiscal Year Ended June 30, 2018 (Measurement Date June 30, 2017)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 10,013,649	\$ -	\$ 10,013,649
Service cost	694,872	-	694,872
Interest in Total OPEB Liability	289,517	-	289,517
Employer contributions	-	197,347	(197,347)
Balance of changes in assumptions	(978,061)	-	(978,061)
Benefit payments	(197,347)	(197,347)	-
Net changes	(191,019)	-	(191,019)
Balance at June 30, 2018	\$ 9,822,630	\$ -	\$ 9,822,630
Covered Payroll at Measurement Date	\$ 36,687,066		
Total OPEB Liability as a % of covered payroll	26.77%		
Service cost as a % of covered payroll	1.89%		
Net OPEB Liability as a % of covered payroll	26.77%		
Contributions as a percent of covered payroll	0.54%		

The District's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ -
Difference between actual and expected earnings	-	-
Change in assumptions	-	911,071
OPEB contribution subsequent to measurement date	165,560	-
Totals	\$ 165,560	\$ 911,071

Of the total amount reported as deferred outflows of resources related to OPEB, \$165,560 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Amounts reported as deferred outflows/inflows of resources will be recognized in OPEB expenses as follows:

Year Ended June 30,	
2019	\$ (66,990)
2020	(66,990)
2021	(66,990)
2022	(66,990)
2023	(66,990)
Thereafter	(576,118)
Total	<u>\$ (911,071)</u>

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018:

Service cost	\$ 694,872
Interest in TOL	289,517
OPEB Expense	<u>\$ 917,399</u>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018:

Total OPEB liability ending	\$ 9,822,630
Total OPEB liability beginning	(10,013,649)
Change in total OPEB liability	(191,019)
Employer contributions	197,347
OPEB Expense	<u>\$ 917,399</u>

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	(1% Decrease)	(Current Rate)	(1% Increase)
Total OPEB Liability	\$ 11,412,768	\$ 9,822,630	\$ 8,530,931

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	(1% Decrease)	(Current Rate)	(1% Increase)
Total OPEB Liability	\$ 8,383,240	\$ 9,822,630	\$ 11,674,086

REQUIRED
SUPPLEMENTARY
INFORMATION

Union School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual (GAAP Basis)	Positive - (Negative)
Revenues:				
LCFF sources	\$ 44,406,583	\$ 44,736,690	\$ 44,790,137	\$ 53,447
Federal revenues	1,384,171	1,425,716	1,433,630	7,914
Other state	2,887,467	3,793,945	5,297,196	1,503,251
Other local	1,474,626	2,048,840	2,487,141	438,301
Total revenues	50,152,847	52,005,191	54,008,104	2,002,913
Expenditures:				
Certificated salaries	28,613,157	29,868,400	29,534,273	334,127
Classified salaries	7,713,605	8,373,768	8,256,226	117,542
Employee benefits	13,144,775	13,516,281	14,548,073	(1,031,792)
Books and supplies	1,865,754	2,143,970	1,660,388	483,582
Services and other operating expenditures	8,031,417	8,829,804	8,182,242	647,562
Capital outlay	136,000	204,929	104,416	100,513
Other outgo	530,078	532,328	487,639	44,689
Total expenditures	60,034,786	63,469,480	62,773,257	696,223
Excess (deficiency) of revenues over (under) expenditures	(9,881,939)	(11,464,289)	(8,765,153)	2,699,136
Other financing sources (uses):				
Transfers in	7,608,581	8,840,727	7,687,423	(1,153,304)
Transfers out	(479,621)	(362,489)	(285,504)	76,985
Total other financing sources (uses)	7,128,960	8,478,238	7,401,919	(1,076,319)
Change in fund balance	(2,752,979)	(2,986,051)	(1,363,234)	1,622,817
Fund balances beginning	7,800,013	7,800,013	7,800,013	-
Fund balances ending	\$ 5,047,034	\$ 4,813,962	\$ 6,436,779	\$ 1,622,817

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures can not legally exceed appropriations by maor object. The above excesses were not in accordance with Education Code 42600.

Union School District
Schedule of Pension Plan Contributions
For the Fiscal Year Ended June 30, 2018

CalPERS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 1,139,859	\$ 909,398	\$ 707,767	\$ 635,675
Contributions in Relation to Actuarially Determined Contributions	1,139,859	909,398	707,767	635,675
Contribution Deficiency (Excess)	-	-	-	-
Covered Employee Payroll	\$ 7,339,250	\$ 6,548,087	\$ 5,972,726	\$ 5,400,348
Contributions as a Percentage of Covered Payroll	15.53%	13.89%	11.85%	11.77%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

CalSTRS	2018	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 4,171,121	\$ 3,443,035	\$ 2,641,557	\$ 2,033,138
Contributions in Relation to Actuarially Determined Contributions	4,171,121	3,443,035	2,641,557	2,033,138
Contribution Deficiency (Excess)	-	-	-	-
Covered Employee Payroll	\$ 28,940,047	\$ 27,369,118	\$ 24,618,425	\$ 22,895,698
Contributions as a Percentage of Covered Payroll	14.41%	12.58%	10.73%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll
7 Years Remaining Amortization Period
Inflation Assumed at 3.00%
Investment Rate of Returns set at 7.50%
STRS mortality table using membership data for all funds

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Union School District
Schedule of Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2018

	2018	2017	2016	2015
CalPERS				
Proportion of Net Pension Liability	0.05156%	0.04612%	0.04486%	0.04330%
Proportionate Share of Net Pension Liability	\$ 12,308,733	\$ 9,107,786	\$ 6,612,824	\$ 4,915,604
Covered Payroll	\$ 6,548,085	\$ 5,974,078	\$ 5,400,348	\$ 4,543,769
Proportionate Share of NPL as a % of Covered Payroll	187.97%	152.46%	122.45%	108.18%
Plan's Fiduciary Net Position as a % of the TPL	71.87%	73.90%	79.43%	83.38%
CalSTRS				
Proportion of Net Pension Liability	0.05200%	0.04313%	0.04215%	0.04700%
Proportionate Share of Net Pension Liability	\$ 48,089,080	\$ 34,884,799	\$ 28,377,439	\$ 27,465,390
Covered Payroll	\$ 27,369,118	\$ 24,618,425	\$ 22,895,698	\$ 20,856,824
Proportionate Share of NPL as a % of Covered Payroll	175.71%	141.70%	123.94%	131.69%
Plan's Fiduciary Net Position as a % of the TPL	69.46%	70.04%	74.02%	76.52%

Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.
STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Union School District
Schedule of Total OPEB Liability
For the Fiscal Year Ended June 30, 2018

Fiscal Year	2018
Total OPEB liability	
Service cost	\$ 694,872
Interest	289,517
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(978,061)
Benefit payments	(197,347)
Net change in Total OPEB Liability	(191,019)
Total OPEB Liability - beginning	10,013,649
Total OPEB Liability - ending	<u>\$ 9,822,630</u>
Plan fiduciary net position	
Employer contributions	\$ 197,347
Employer implicit subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	(197,347)
Other	-
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u>\$ -</u>
Net OPEB liability	\$ 9,822,630
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%
Covered payroll	\$ 36,687,066
Net OPEB Liability as a percentage of covered payroll	26.77%
Total OPEB Liability as a percentage of covered payroll	26.77%

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

SUPPLEMENTARY
INFORMATION

***Nonmajor Governmental Funds
Combining Schedules***

Union School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Funds		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Assets					
Cash and investments	\$ 18,286	\$ 483,979	\$ 109,856	\$ 853,634	\$ 1,465,755
Accounts receivable	24,988	2,094	374	2,126	29,582
Due from other funds	36,571	-	-	-	36,571
Stores inventories	24,574	-	-	-	24,574
Total Assets	<u>\$ 104,419</u>	<u>\$ 486,073</u>	<u>\$ 110,230</u>	<u>\$ 855,760</u>	<u>\$ 1,556,482</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 18,445	\$ 11,743	\$ -	\$ -	\$ 30,188
Due to other funds	-	-	-	-	-
Unearned revenue	61,400	-	-	-	61,400
Total Liabilities	<u>79,845</u>	<u>11,743</u>	<u>-</u>	<u>-</u>	<u>91,588</u>
Fund Balances:					
Nonspendable stores inventories	24,574	-	-	-	24,574
Restricted for capital projects	-	-	-	855,760	855,760
Assigned for deferred maintenance projects	-	474,330	-	-	474,330
Assigned for capital facilities projects	-	-	110,230	-	110,230
Total Fund Balances	<u>24,574</u>	<u>474,330</u>	<u>110,230</u>	<u>855,760</u>	<u>1,464,894</u>
Total Liabilities and Fund Balances	<u>\$ 104,419</u>	<u>\$ 486,073</u>	<u>\$ 110,230</u>	<u>\$ 855,760</u>	<u>\$ 1,556,482</u>

Union School District
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2018

	Special Revenue Funds		Capital Projects Fund		
	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Nonmajor Governmental Funds
Revenues:					
Federal revenue	\$ 280,767	\$ -	\$ -	\$ -	\$ 280,767
Other state	18,960	-	-	429,976	448,936
Other local	628,669	10,164	151,257	6,746	796,836
Total revenues	928,396	10,164	151,257	436,722	1,526,539
Expenditures:					
Pupil services:					
Food services	1,020,967	-	-	-	1,020,967
Plant services	-	-	-	51,174	51,174
Facilities acquisition and construction	-	819,019	186,790	-	1,005,809
Total expenditures	1,020,967	819,019	186,790	51,174	2,077,950
Excess (deficiency) of revenues over (under) expenditures	(92,571)	(808,855)	(35,533)	385,548	(551,411)
Other financing sources (uses):					
Transfers in	92,571	-	-	-	92,571
Transfers out	-	-	-	-	-
Total other financing sources (uses)	92,571	-	-	-	92,571
Change in fund balances	-	(808,855)	(35,533)	385,548	(458,840)
Fund balances beginning	24,574	1,283,185	145,763	470,212	1,923,734
Fund balances ending	\$ 24,574	\$ 474,330	\$ 110,230	\$ 855,760	\$ 1,464,894

STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

Union School District
Organization (Unaudited)
June 30, 2018

The Union School District was originally established in 1863. The District is located in Santa Clara County and there were no changes in District boundaries during the year. The District maintains six elementary schools and two middle schools.

The Board of Education for the fiscal year ended June 30, 2018, was comprised of the following members:

Governing Board

Name	Office	Term Expires
Sheila Billings	President	2018
Vickie Brown	Vice President	2020
Jennifer Petroff	Clerk	2020
Doug Evans	Member	2018
Thomas Rossmeissl	Member	2018

Administration

Denise Coleman
Superintendent

Rita Sohal
Assistant Superintendent of Business Services

Union School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Second Period Report	Annual Report
Elementary:		
Grades TK/K through three	2,389.58	2,395.26
Grades four through six	2,008.17	2,011.01
Grades seven and eight	1,251.54	1,252.66
Regular ADA Totals	5,649.29	5,658.93
Extended year Special education:		
Grades TK/K through three	4.84	4.84
Grades four through six	1.43	1.43
Grades seven and eight	0.26	0.26
Special education - nonpublic, nonsect schools:		
Grades four through six	1.04	1.21
Grades seven and eight	0.98	0.97
Extended year special education - nonpublic, nonsect schools:		
Grades four through six	0.11	0.11
Grades seven and eight	0.22	0.22
ADA Totals	5,658.17	5,667.97

Union School District
Schedule of Instructional Time Offered
For the Fiscal Year Ended June 30, 2018

Grade Level	Minutes Requirements	2018 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	0	In compliance
Grade 1	50,400	52,355	180	0	In compliance
Grade 2	50,400	52,355	180	0	In compliance
Grade 3	50,400	52,355	180	0	In compliance
Grade 4	54,000	54,145	180	0	In compliance
Grade 5	54,000	54,145	180	0	In compliance
Grade 6	54,000	54,196	180	0	In compliance
Grade 7	54,000	54,196	180	0	In compliance
Grade 8	54,000	54,196	180	0	In compliance

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

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. 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 has not met or exceeded its target funding.

Union School District
Schedule of Charter Schools (Unaudited)
June 30, 2018

This schedule is to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Union School District.

Union School District
Schedule of Financial Trends and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2018

	(Budget ¹)			
	2019	2018	2017	2016
<u>General Fund</u>				
Revenues and other financial sources	\$ 63,974,497	\$ 61,695,527	\$ 59,501,359	\$ 55,056,248
Expenditures	64,463,821	62,773,257	58,946,369	52,617,125
Other uses and transfers (out)	351,589	285,504	197,457	20,332
Total outgo	64,815,410	63,058,761	59,143,826	52,637,457
Change in fund balance	\$ (840,913)	\$ (1,363,234)	\$ 357,533	\$ 2,418,791
Ending fund balance	\$ 5,595,866	\$ 6,436,779	\$ 7,800,013	\$ 7,442,480
Available reserves ⁽²⁾	\$ 1,944,462	\$ 1,891,766	\$ 1,774,315	\$ 1,579,124
Reserve for economic uncertainties	\$ 1,944,462	\$ 1,891,766	\$ 1,774,315	\$ 1,579,124
Unassigned fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	3.0%	3.0%	3.0%	3.0%
Total long-term debt	\$ 238,193,321	\$ 243,893,678	\$ 220,299,102	\$ 182,607,926
Average daily attendance (ADA) at P-2	5,654	5,658	5,607	5,529

ADA has increased by 129 over the past three years. The district anticipates a decrease of 4 ADA in 2018/19.

The general fund balance has decreased by \$1,005,701 over the past three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, other uses (total outgo). The fiscal year 2018/19 budget projects a \$840,913 decrease in fund balance.

The district has had an operating surplus in two of the past three years. Total long-term debt has increased by \$61,285,752 over the past three years.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2018/19

² Available reserves consists of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Union School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition - National School Lunch Program	10.555	13524	\$ 280,767
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>280,767</u>
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
<i>Special Education Cluster</i>			
Special Ed: IDEA Basic Local Assistance Entitlement, Part B	84.027 ⁽¹⁾	13379	921,636
Special Ed: IDEA Local Assistance, Part B, Private School ISPs	84.027 ⁽¹⁾	10115	8,227
Special Ed: IDEA Preschool Grants, Part B (Age 3-4-5)	84.173 ⁽¹⁾	13430	35,825
Special Ed: IDEA Preschool Local Entitlement, Part B (Age 3-4-5)	84.027 ⁽¹⁾	13682	110,980
Special Ed: IDEA Preschool Staff Development, Part B	84.173 ⁽¹⁾	13431	256
<i>Total Special Education Cluster</i>			<u>1,076,924</u>
NCLB: Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	124,156
ESEA (ESSA): Title III, Immigrant Education Program	84.365	15146	17,356
ESEA (ESSA): Title III, English Learner Student Program	84.365	14346	94,365
ESEA (ESSA): Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	65,069
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>1,377,870</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Medi-Cal Billing Option	93.778	10013	15,048
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>15,048</u>
TOTAL FEDERAL PROGRAMS			<u><u>\$ 1,673,685</u></u>

⁽¹⁾ Audited as major program

Union School District
Reconciliation of Annual Financial and Budget Report (SACS)
With Audited Financial Statements
For the Fiscal Year Ended June 30, 2018

	General Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Internal Service Self Insurance Fund (OPEB)
June 30, 2018 Annual Financial and Budget Report Fund Balances	\$ 6,436,779	\$ 29,893,220	\$ 10,917,439	\$ 1,464,894	\$ (1,803,115)
Adjustments and Reclassifications: None	-	-	-	-	-
June 30, 2018 Audited Financial Statements Fund Balances	<u>\$ 6,436,779</u>	<u>\$ 29,893,220</u>	<u>\$ 10,917,439</u>	<u>\$ 1,464,894</u>	<u>\$ (1,803,115)</u>

Union School District
Notes to State and Federal Award Compliance Section
For the Fiscal Year Ended June 30, 2018

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and Longer Instructional Year. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. Schedule of Financial Trends and Analysis

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

E. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

Union School District
Notes to State and Federal Award Compliance Section
For the Fiscal Year Ended June 30, 2018

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

5. EARLY RETIREMENT INCENTIVE PROGRAM

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Union School District
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Union School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2018 .

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion



on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

C & A LLP

December 16, 2018
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY TITLE 2 CFR PART 200 (UNIFORM GUIDANCE)**

Board of Trustees
Union School District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Union School District's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The 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 the 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; the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 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 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 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 District's internal control over compliance.

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

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

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

C & A LLP

December 16, 2018
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Trustees
Union School District
San Jose, California

Compliance

We have audited the Union School District's (the District) 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*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2018.

Management's Responsibility

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

Auditors' 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*, published by the Education Audit Appeals Panel. 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state 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 material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe 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 compliance 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>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other than Charter Schools:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes



<u>Description</u>	<u>Procedures Performed</u>
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 Job Acts	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
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

We did not perform the audit procedures for the Full-time Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2018.

C & A LLP

December 16, 2018
San Jose, California

FINDINGS AND RECOMMENDATIONS

Union School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses? _____ Yes x No

Significant deficiencies identified not
considered to be material weaknesses? _____ Yes x No

Non-compliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

Material weaknesses? _____ Yes x No

Significant deficiencies identified not
considered to be material weaknesses? _____ Yes x No

Type of auditor's report issued on compliance over major programs Unmodified

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a) _____ Yes x No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.027 and 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between
type A and type B programs: \$ 750,000

Auditee qualified as low risk auditee? _____ Yes x No

State Awards

Internal control over state programs:

Material weaknesses? _____ Yes x No

Significant deficiencies identified not
considered to be material weaknesses? _____ Yes x No

Type of auditor's report issued on compliance over state programs: Unmodified

Union School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Union School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Union Elementary School District (the “District”) in connection with the issuance of \$_____ of the District’s Election of 2014 General Obligation Bonds, Series E (the “Bonds”). The Bonds are being issued pursuant to a Resolution of the Board of Trustees of the District adopted on June 10, 2019 (the “Resolution”). 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 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 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean initially the District, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

“Holders” shall mean registered owners of the Bonds.

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

“Participating Underwriter” shall mean Wells Fargo Bank, National Association, or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“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.

“State” shall mean the State of California.

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 (presently ending June 30), commencing with the report for the 2018-19 Fiscal Year, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided 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 the same manner as for a Listed Event under Section 5(d).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice in a timely manner to the Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided to the Repository.

SECTION 4. Content and Form of Annual Reports. (a) The District’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), 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 filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District’s audited financial statements):

- (a) State funding received by the District for the last completed fiscal year;
- (b) average daily attendance of the District for the last completed fiscal year;

- (c) outstanding District indebtedness;
- (d) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year;
- (e) assessed valuation of taxable property within the District for the current fiscal year; and
- (f) secured *ad valorem* tax levies and delinquencies for taxable property within the District for the last completed fiscal year, to the extent Santa Clara County no longer implements to the Teeter Plan (as such term is defined in the Official Statement) as to secured *ad valorem* tax levies for general obligation bonded debt of the District.

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

(b) The Annual Report shall be filed in an electronic format, and accompanied by identifying information, prescribed by the Municipal Securities Rulemaking Board.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, 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 in excess of 10 business days after the occurrence of the event:

- 1. principal and interest payment delinquencies.
- 2. tender offers.
- 3. defeasances.
- 4. rating changes.
- 5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
- 6. unscheduled draws on the debt service reserves reflecting financial difficulties.
- 7. unscheduled draws on credit enhancement reflecting financial difficulties.
- 8. substitution of the credit or liquidity providers or their failure to perform.
- 9. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the District. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction

has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

(b) Pursuant to the provisions of this Section 5, 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:

1. non-payment related defaults.
2. modifications to rights of Bondholders.
3. optional, contingent or unscheduled bond calls.
4. unless described under Section 5(a)(5) above material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
5. release, substitution or sale of property securing repayment of the Bonds.
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
7. appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.
8. incurrence of a Financial Obligation, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect Bondowners.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

SECTION 6. 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 the same manner as for a Listed Event under Section 5(a).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. 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 and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. 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 Sections 3(a), 4, or 5, 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;

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

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 the same manner as for a Listed Event under Section 5(a), 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 9. 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 of occurrence of a Listed Event, 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 of occurrence of a Listed Event 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.

SECTION 10. 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. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross 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. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repository. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

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

Dated: _____, 2019

UNION ELEMENTARY SCHOOL DISTRICT

By: _____

Rita Sohal
Assistant Superintendent of Business Services

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: UNION ELEMENTARY SCHOOL DISTRICT

Name of Bond Issue: Election of 2014 General Obligation Bonds, Series E

Date of Issuance: _____, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

UNION ELEMENTARY SCHOOL DISTRICT

By _____ [form only; no signature required]

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APPENDIX D
ACCRETED VALUES TABLE

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APPENDIX E

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF SAN JOSE AND SANTA CLARA COUNTY

The following information regarding the City of San Jose (the “City”) and Santa Clara County (the “County”) is included only for the purpose of supplying general information regarding the local community and economy. The Bonds are not a debt of the City or of the County. This material has been prepared by or excerpted from the sources as noted herein and has not been independently verified by the District, the Underwriter or the municipal advisor.

General

The City of San Jose. The City is the third most populous city in the State of California (the “State”) and the tenth in the United States. Located on the southern end of the San Francisco Bay, the City is sometimes referred to as the “Capital of Silicon Valley” and is the home to many of the world’s largest technology companies. The City is a charter city with a council-manager government consisting of a Mayor and 10 Council members. The Mayor is elected at large to a four-year term, while the Council members are elected by district to four-year staggered terms, with both limited to two consecutive four-year terms. A City Manager, responsible for the day-to-day operations of the City, is nominated by the mayor and confirmed by the city council

Santa Clara County. The County is one of the nine counties in the greater metropolitan San Francisco Bay Area, and occupies an area of 1,316 square miles. Established by State of California legislation in 1850, it was one of the original 27 counties in the State. The County is home to Silicon Valley, the birthplace of the semiconductor and computer industries in the United States, and operates under a Home Rule Charter adopted by its voters. The County Board of Supervisors is comprised of officials elected by each of five districts to four-year staggered terms. The economy of the County is based largely on the primary and secondary businesses associated with the computer and technology industries.

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Population

The following table shows historical population figures for the City, the County and the State for the past 10 years.

POPULATION ESTIMATES
2010 through 2019
City of San Jose, Santa Clara County and the State of California

<u>Year</u> ⁽¹⁾	<u>City of San Jose</u>	<u>Santa Clara County</u>	<u>State of California</u>
2010 ⁽²⁾	945,942	1,781,642	37,253,956
2011	963,666	1,805,767	37,594,781
2012	980,754	1,832,983	37,971,427
2013	995,657	1,860,687	38,321,459
2014	1,008,841	1,882,230	38,622,301
2015	1,023,285	1,906,511	38,952,462
2016	1,032,423	1,925,306	39,214,803
2017	1,038,271	1,936,052	39,504,609
2018	1,042,900	1,947,798	39,740,508
2019	1,043,058	1,954,286	39,927,315

(1) As of January 1.

(2) As of April 1.

Source: 2010: U.S. Department of Commerce, Bureau of the Census, for April 1.
2010-19 (2010 DRU Benchmark): California Department of Finance for January 1.

Personal Income

The following table shows the per capita personal income for the County, the State, and the United States for the past 10 years of data that is currently available.

PER CAPITA PERSONAL INCOME
2008 through 2017
Santa Clara County, the State of California and the United States

<u>Year</u>	<u>Santa Clara County</u>	<u>State of California</u>	<u>United States</u>
2008	\$61,511	\$43,895	\$40,904
2009	57,106	42,050	39,284
2010	61,289	43,609	40,545
2011	66,366	46,145	42,727
2012	72,704	48,751	44,582
2013	72,754	49,173	44,826
2014	78,955	52,237	47,025
2015	86,141	55,679	48,940
2016	92,168	57,497	49,831
2017	98,032	59,796	51,640

Note: Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. Estimates for 2010 through 2017 reflect county population estimates available as of March 2018. All dollar estimates are in current dollars (not adjusted for inflation). Last updated: March 6, 2019.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Principal Employers

The following tables show the principal employers in the City and the County by number of employees.

PRINCIPAL EMPLOYERS 2018 City of San Jose

<u>Employer Name</u>	<u>Industry</u>	<u>Number of Employees</u>
County of Santa Clara	Public Administration	18,000
Cisco Systems	Manufacturing: Computer Equipment	9,800
City of San Jose	Public Administration	6,412
Paypal, Inc.	Computer Related Services	3,300
eBay	Computer Related Services	3,280
Adobe Systems, Inc.	Computer Programming Services	2,750
Kaiser Permanente	Health Services	2,175
Good Samaritan Health System	Health Services	2,050
Western Digital	Manufacturing: Computer Equipment	2,000
Super Micro	Computer Related Services	1,700

Source: City of San Jose "Comprehensive Annual Financial Report," Fiscal Year Ended June 30, 2018.

PRINCIPAL EMPLOYERS 2018 Santa Clara County

<u>Employer Name</u>	<u>Industry</u>	<u>Number of Employees</u>
Apple Computer, Inc.	Computer Services	25,000
Alphabet Inc	Offices of Holding Companies	20,000
County of Santa Clara	Public Administration	18,806
Stanford University	Educational Services	16,919
Cisco Technology Inc.	Prepackaged Software	14,120
Kaiser Permanente	Health Services	12,500
Stanford Healthcare	Health Services	10,034
Tesla Motors Inc	Automobile Manufacturing	10,000
Intel Corporation	Semiconductor Manufacturing	8,450
City of San Jose	Public Administration	6,159

Source: County of Santa Clara "Comprehensive Annual Financial Report" for the Fiscal Year Ended June 30, 2018.

Employment

The following table summarizes the labor force, employment and unemployment figures for the years 2014 through 2018 for the City, the County and the State.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
2014 through 2018⁽¹⁾
City of San Jose, Santa Clara County, and the State of California

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment⁽²⁾</u>	<u>Unemployment⁽³⁾</u>	<u>Unemployment Rate</u>
<u>2014</u>				
City of San Jose	528,900	498,500	30,400	5.8%
Santa Clara County	989,900	938,900	51,000	5.2
State of California	18,714,700	17,310,900	1,403,800	7.5
<u>2015</u>				
City of San Jose	539,900	514,900	25,100	4.6%
Santa Clara County	1,013,200	971,100	42,000	4.1
State of California	18,851,100	17,681,800	1,169,200	6.2
<u>2016</u>				
City of San Jose	545,100	523,700	21,400	3.9%
Santa Clara County	1,028,700	989,900	38,800	3.8
State of California	19,044,500	18,002,800	1,041,700	5.5
<u>2017</u>				
City of San Jose	550,800	532,400	18,400	3.3%
Santa Clara County	1,039,900	1,006,500	33,400	3.2
State of California	19,205,300	18,285,500	919,800	4.8
<u>2018</u>				
City of San Jose	555,400	540,300	15,100	2.7%
Santa Clara County	1,048,800	1,021,500	27,300	2.6
State of California	19,398,200	18,582,800	815,4000	4.2

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

(2) Includes persons involved in labor-management trade disputes.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2018 Benchmark.

Industry

The City and the County are included in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (the “MSA”). The distribution of employment in the MSA is presented in the following table for the past five calendar years. These figures are multi county-wide statistics and may not necessarily accurately reflect employment trends in the City or the County.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES 2014 through 2018 Santa Clara County (San Jose-Santa Clara-Sunnyvale MSA)

<u>Category</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Farm	5,300	5,500	6,100	5,800	5,800
Total Nonfarm	1,007,200	1,046,000	1,079,900	1,104,900	1,125,200
Total Private	913,800	953,000	985,800	1,009,300	1,028,400
Goods Producing	201,700	209,000	215,100	216,000	221,900
Mining and Logging	300	200	300	200	200
Construction	39,700	43,900	48,300	49,300	49,400
Manufacturing	161,700	164,800	166,600	166,400	172,300
Durable Goods	148,100	151,400	153,000	153,000	158,900
Nondurable Goods	13,600	13,500	13,600	13,400	13,400
Service Providing	805,500	837,000	864,800	888,900	903,300
Private Service Providing	712,100	744,100	770,700	793,400	806,500
Trade, Transportation and Utilities	135,400	137,000	136,500	134,100	134,000
Wholesale Trade	35,800	35,800	35,200	32,900	31,700
Retail Trade	85,300	86,600	85,800	85,800	86,300
Transportation, Warehousing and Utilities	14,400	14,600	15,500	15,400	16,000
Information	63,300	68,400	74,700	84,700	91,700
Financial Activities	34,100	34,600	35,600	36,100	37,100
Professional and Business Services	210,000	224,000	233,000	237,400	237,300
Educational and Health Services	150,000	156,300	162,500	168,800	172,700
Leisure and Hospitality	92,900	96,800	100,600	103,400	105,000
Other Services	26,400	26,900	27,600	28,900	28,800
Government	93,400	92,900	94,100	95,500	96,800
Total, All Industries	<u>1,012,500</u>	<u>1,051,500</u>	<u>1,086,000</u>	<u>1,110,700</u>	<u>1,131,000</u>

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, Average Labor Force and Industry Employment. March 2018 Benchmark.

Commercial Activity

Summaries of annual taxable sales for the City and the County from 2013 through 2017 are shown in the following tables.

**ANNUAL TAXABLE SALES
2013 through 2017
City of San Jose
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Taxable Transactions</u>
2013	13,947	9,531,713	20,454	13,959,504
2014	14,176	9,934,775	20,683	14,693,838
2015	--	10,155,744	--	15,172,853
2016	--	10,246,143	--	15,124,341
2017		10,558,372		15,054,364

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years.

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

**ANNUAL TAXABLE SALES
2013 through 2017
Santa Clara County
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Taxable Transactions</u>
2013	29,535	22,424,642	45,310	37,621,606
2014	30,058	23,271,753	45,852	39,628,655
2015	--	23,700,907	--	41,231,759
2016	--	24,158,590	--	41,831,669
2017		24,862,883		42,805,399

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years.

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

Construction Activity

The following tables show the annual building permit valuations and number of permits for new dwelling units issued from 2014 through 2018 for the City and the County.

BUILDING PERMITS AND VALUATIONS 2014 through 2018 City of San Jose (Dollars in Thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Valuation					
Residential	\$660,884	\$428,603	\$434,898	\$586,114	\$467,091
Non-Residential	<u>504,077</u>	<u>722,921</u>	<u>1,394,435</u>	<u>1,170,478</u>	<u>794,544</u>
Total	\$1,166,975	\$1,151,524	\$1,829,333	\$1,756,592	\$1,261,635
Units					
Single Family	390	152	201	176	302
Multiple Family	<u>4,074</u>	<u>1,864</u>	<u>1,871</u>	<u>2,903</u>	<u>2,607</u>
Total	4,464	2,016	2,072	3,079	2,909

Note: Totals may not add to sum due to rounding.

Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS 2014 through 2018 Santa Clara County (Dollars in Thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Valuation					
Residential	\$2,230,348	\$1,866,596	\$1,709,883	\$2,308,296	\$2,385,259
Non-Residential	<u>2,655,413</u>	<u>3,589,801</u>	<u>4,698,159</u>	<u>3,359,316</u>	<u>4,132,146</u>
Total	\$4,885,761	\$5,456,397	\$6,408,042	\$5,667,612	\$6,517,405
Units					
Single Family	1,602	1,710	1,608	2,022	2,011
Multiple Family	<u>8,310</u>	<u>3,906</u>	<u>3,297</u>	<u>6,629</u>	<u>6,342</u>
Total	9,912	5,616	4,905	8,651	8,352

Note: Totals may not add to sum because of rounding.

Source: Construction Industry Research Board.

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APPENDIX F

SANTA CLARA COUNTY INVESTMENT POOL

The following information concerning the Santa Clara County Investment Pool (the “Investment Pool”) has been provided by the Director of Finance (the “Director of Finance”) of Santa Clara County (the “County”), and has not been confirmed or verified by the District, the Municipal Advisor or the Underwriter. The District, the Municipal Advisor and the Underwriter have not made an independent investigation of the investments in the Investment Pool and have made no assessment of the current County investment policy. The value of the various investments in the Investment Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Director of Finance, with the consent of the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Investment Pool will not vary significantly from the values described herein. Finally, none of the District, the Municipal Advisor or the Underwriter make any representation 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. Additional information regarding the Investment Pool may be obtained from the Director of Finance at <http://www.sccgov.org>; however, the information presented on such website is not incorporated herein by any reference.

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Quarterly Investment Report

June 30, 2019



Santa Clara County Commingled Pool and Segregated Investments

June 30, 2019

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$8,564,901,892	\$8,588,362,464	\$23,460,572	0.27%
Worker's Compensation	\$28,864,161	\$29,138,699	\$274,538	0.95%
Park Charter Fund	\$4,251,185	\$4,285,156	\$33,971	0.80%
San Jose-Evergreen	\$17,178,643	\$17,191,225	\$12,582	0.07%
Medical Malpractice Insurance Fund (1)	\$9,374,782	\$9,457,199	\$82,417	0.88%
Total	\$8,624,570,662	\$8,648,434,743	\$23,864,081	0.28%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields* for Select Santa Clara County Investment Funds

Fund	2019			2018
	<u>Apr 30</u>	<u>May 31</u>	<u>Jun 30</u>	<u>Jun 30</u>
Commingled Investment Pool	2.28%	2.29%	2.27%	1.79%
Worker's Compensation	2.94%	2.38%	2.37%	1.67%
Weighted Yield	2.28%	2.29%	2.27%	1.79%

*Yield to maturity (YTM) is the rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date and if the coupon interest paid over the life of the bond is reinvested at the same rate as the coupon rate. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price at time of purchase.

Yield is a snapshot measure of the yield of the portfolio on the day it was measured based on the current portfolio holdings on that day. This is not a measure of total return, and is not intended to be, since it does not factor in unrealized capital gains and losses and reinvestment rates are dependent upon interest rate changes

**Cost Value is the amortized book value of the securities as of the date of this report.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Strategy

June 30, 2019

Escalating trade tensions, so far, have not seriously hindered the U.S. domestic economy. Consumer strength continues to support the economy bolstered by a strong labor market and steady wage growth. With current unemployment at 3.7 percent, the lowest since 1969, the U.S. by most measures is at or very close to full employment. In June, U.S. retail sales and factory output exceeded expectations and underscored steady economic growth. Most of the slowing in world growth is coming from outside of the U.S., those economies not resilient enough to withstand headwinds from tariff disputes between the U.S. and China.

Insulated from global trade frictions, domestic service sectors including health care, finance and education remain solidly in expansion mode. U.S. manufacturing and factory output, while still expanding, has decelerated in the past year. New and proposed tariffs have forced domestic producers to contemplate alternative supply chains through other low wage countries, impacting production. But more importantly, the uncertainty over resolution of current trade spats have delayed big spending decisions including capital expenditures and eroded business sentiment. Of note, other issues have also weighed on American manufacturers including the strength of the dollar which has made domestic goods less competitive abroad.

In June 2019, President Donald Trump decided, pending upcoming negotiations, to temporarily hold off imposing higher tariffs on \$300 billion of imported goods from China, the world's second largest economy. Since the onset of this trade dispute, the U.S. had previously increased tariffs by 25 percent on approximately half of all Chinese exports to the U.S.

Evidence of slower growth has been found in widespread weakness in manufacturing and factory output contraction from Europe to Asia. Tariffs have been a heavy burden on China's export sector. In the April-June period, China's economy slowed to the weakest pace since quarterly data began in 1992. Germany with close to 50 percent of its gross domestic product (GDP) coming from exports (mostly autos), is on the verge of a recession, a circumstance exacerbated by U.S. tariffs and faltering global trade. Waning demand for electronics is affecting an industry vital to numerous Asian economies who are export dependent. South Korean exports now have fallen 13.5 percent over the past year.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Strategy

June 30, 2019

By reducing interest rates, the Fed would also be bringing U.S. bond yields into closer alignment with bond yields in other sovereign debt markets. They are substantially lower than in the U.S., and even in some cases, below zero. The United Kingdom 10-year note is around multi-year lows at 81 basis points while the German benchmark yield has pushed significantly below zero and currently yields – 36 basis points. In contrast, as of June 30, 2019, the U.S. Treasury ten-year and two-year note yielded 2 percent and 1.756 percent, respectively. Bloomberg L.P, a provider of financial markets news and data estimates that the current global stockpile of negative yielding debt is approximately \$13 trillion.

The portfolio strategy continues to focus on the:

- (1) acquisition of high-quality issuers;
- (2) identifying and selecting bonds with attractive valuations;
- (3) appropriately sizing the liquidity portion of the portfolio to ensure adequate cash for near term obligations; and
- (4) ensuring that monies targeted for longer term investments are deployed in vehicles with favorable risk-adjusted yields.

Broker-dealers have generally down-sized the amount of securities carried in inventories in response to risk-curbing rules crafted after the 2008 financial crisis. These risk curbing rules include the international regulatory framework for banks called Basel III and the U.S. 2010 Dodd-Frank Law. The Treasury Division has increased its capability to review a larger volume of inventory listings to find attractive bonds. Portfolio structuring does not solely rely on interest rate anticipation strategies, which primarily speculate on the direction of interest rates to earn favorable returns.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Compliance, Review, and Monitoring

June 30, 2019

Yield and Weighted Average Maturity

The yield of the Commingled Pool is 2.27 and the weighted average life is 436 days.

Compliance

The County Treasurer believes the Commingled Pool contains sufficient cash flow from liquid and maturing securities, bank deposits and incoming cash to meet the next six months of expected expenditures.

Review and Monitoring

FTN Financial Main Street Advisors, the County's investment advisor, currently monitors the Treasury Department's investment activities.

Additional Information

Securities are purchased with the expectation that they will be held to maturity, so unrealized gains or losses are not reflected in the yield calculations.

The market values of securities were taken from pricing services provided by the Bank of New York Mellon, Bloomberg Analytics, dealer quotes, and an independent pricing service.



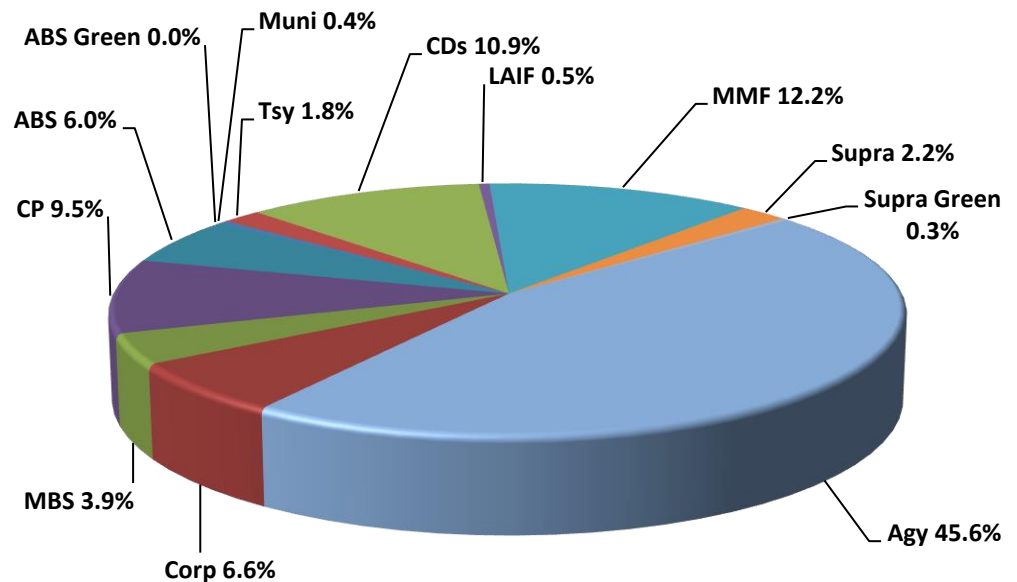
Santa Clara County Commingled Pool

Allocation by Security Types

June 30, 2019

Sector	6/30/2019	3/31/2019	% Chng
Federal Agencies	45.58%	53.97%	-8.4%
Corporate Bonds	6.62%	6.81%	-0.2%
Mortgage Backed Securities	3.90%	4.03%	-0.1%
Commercial Paper	9.47%	4.02%	5.4%
ABS	6.04%	6.90%	-0.9%
ABS Green Bonds	0.00%	0.01%	0.0%
Municipal Securities	0.40%	0.53%	-0.1%
U.S. Treasuries	1.81%	1.95%	-0.1%
Negotiable CDs	10.92%	13.43%	-2.5%
LAIF	0.49%	0.58%	-0.1%
Money Market Funds	12.24%	5.05%	7.2%
Supranationals	2.25%	2.38%	-0.1%
Supranationals Green Bonds	0.29%	0.35%	-0.1%
Total	100.00%	100.00%	

Sector	6/30/2019	3/31/2019
Federal Agencies	3,903,465,859	3,858,898,880
Corporate Bonds	567,061,231	487,053,767
Mortgage Backed Securities	334,163,847	287,861,462
Commercial Paper	811,221,473	287,618,194
ABS	517,437,678	493,457,483
ABS Green Bonds	36,538	516,634
Municipal Securities	34,436,493	37,693,061
U.S. Treasuries	154,865,330	139,576,407
Negotiable CDs	935,000,000	960,000,000
LAIF	41,780,631	41,520,182
Money Market Funds	1,048,124,051	361,362,983
Supranational	192,308,761	170,121,967
Supranationals Green Bonds	25,000,000	25,000,000
Total	8,564,901,892	7,150,681,019



Amounts are based on book value

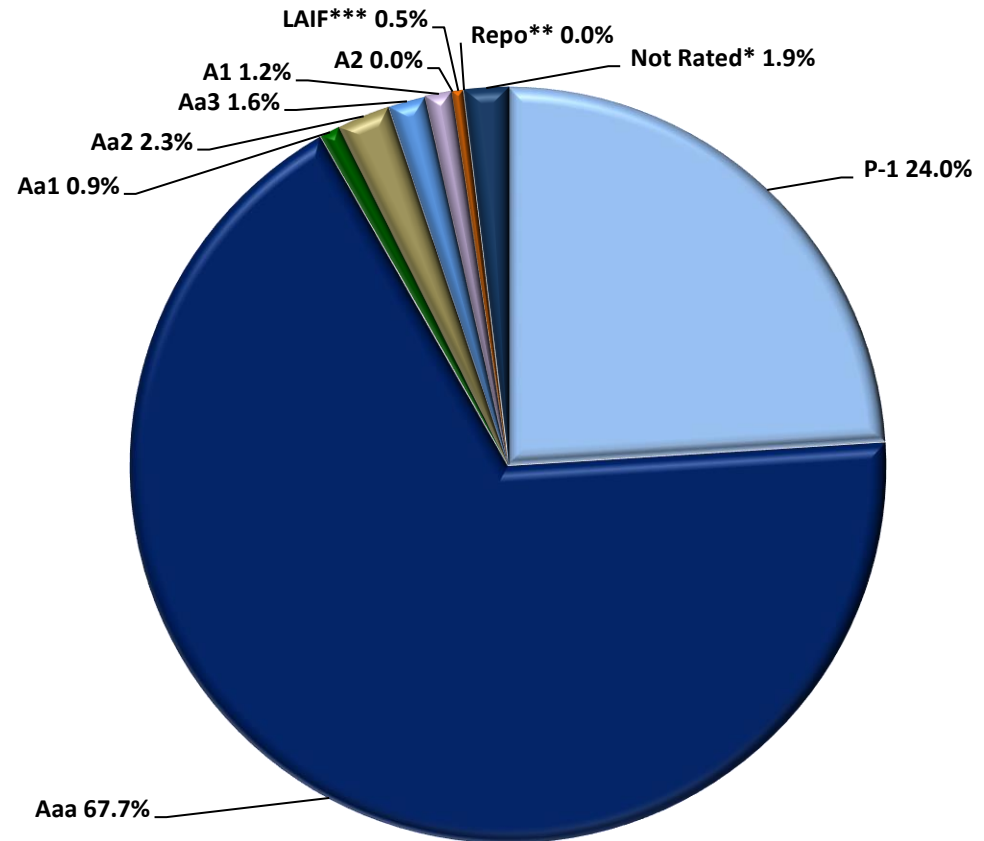


Santa Clara County Commingled Pool

Allocation by Ratings

June 30, 2019

Moody's Rating	Portfolio \$	Portfolio %
P-1	2,056,219,442	24.0%
Aaa	5,800,759,441	67.7%
Aa1	74,981,917	0.9%
Aa2	193,780,975	2.3%
Aa3	136,535,047	1.6%
A1	100,022,515	1.2%
A2	-	0.0%
A3	-	0.0%
LAIF***	41,780,631	0.5%
Repo**	-	0.0%
Not Rated*	160,821,924	1.9%
Total	8,564,901,892	100.0%



*Not Rated by Moody's but A-1+ by S&P

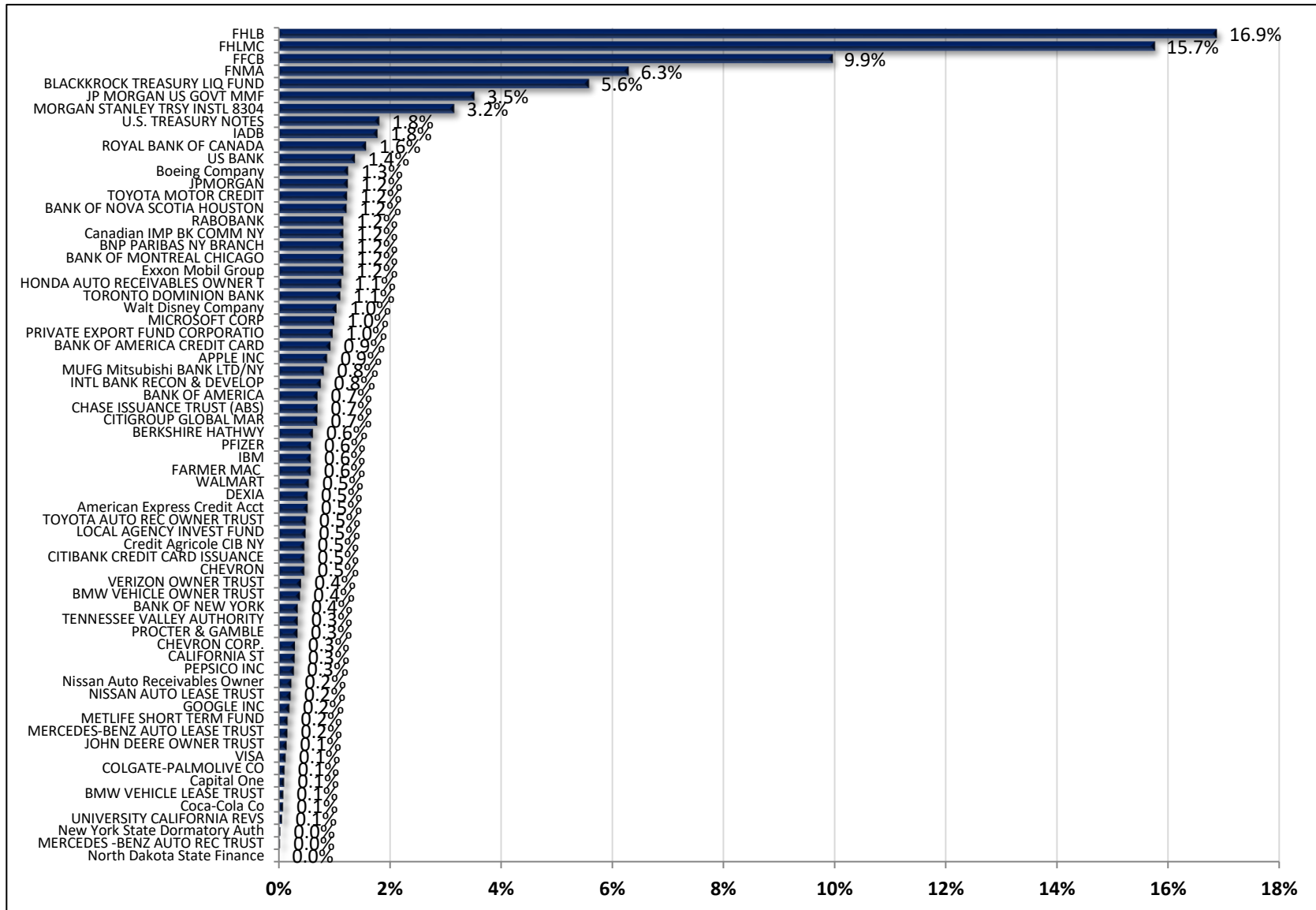
**Repurchase Agreements are not rated, but are collateralized by U.S. Treasury securities or securities issued by the Federal Agencies of the U.S.

***LAIF is not rated, but is comprised of State Code allowable securities

Amounts are based on book values



Santa Clara County Commingled Pool **Holdings by Issuer - Percent of Commingled Pool** **June 30, 2019**



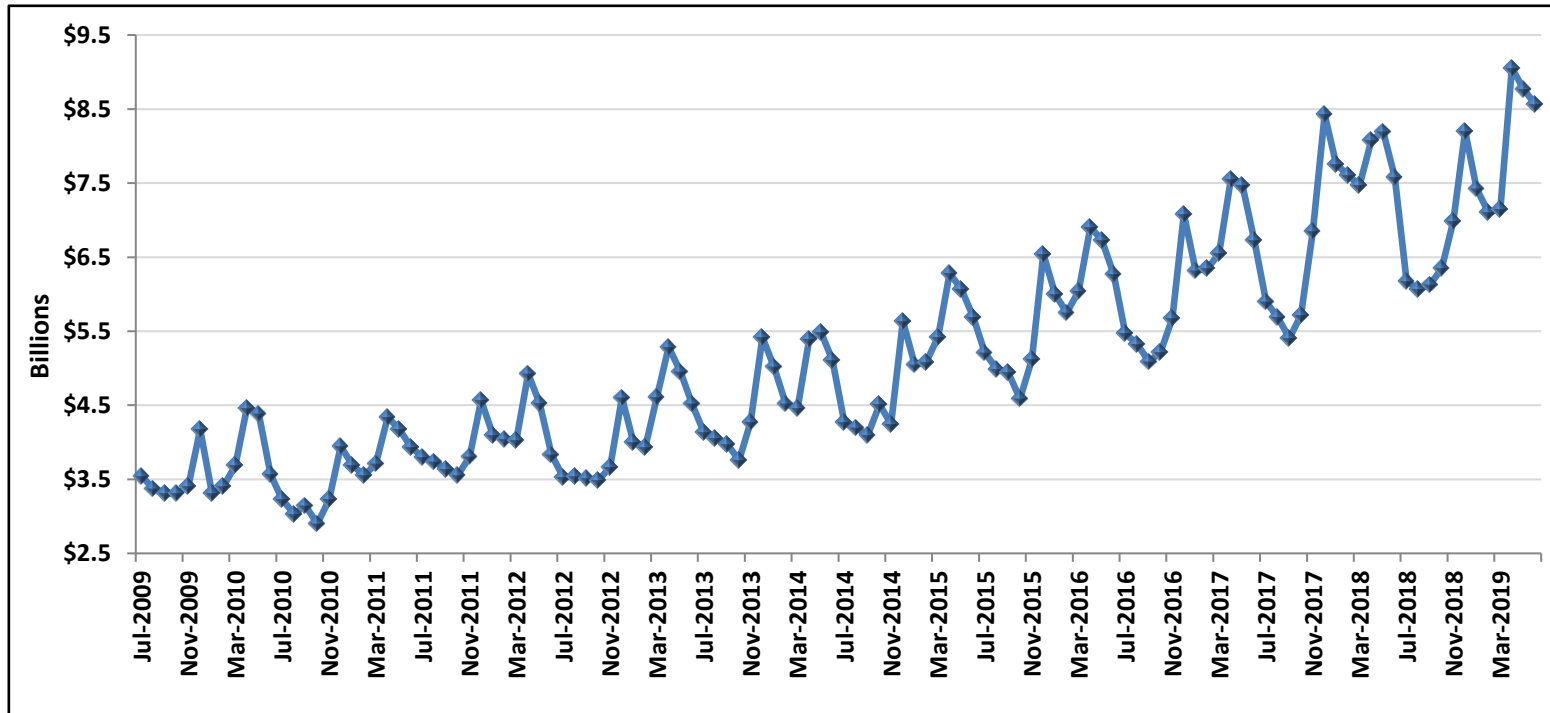
Amounts are based on book values



Santa Clara County Commingled Pool

Historical Month End Book Values

June 30, 2019



Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2010	\$3.541	\$3.373	\$3.307	\$3.307	\$3.408	\$4.175	\$3.307	\$3.408	\$3.687	\$4.463	\$4.384	\$3.536
FY 2011	\$3.230	\$3.032	\$3.143	\$2.898	\$3.227	\$3.943	\$3.695	\$3.551	\$3.712	\$4.339	\$4.179	\$3.935
FY 2012	\$3.801	\$3.736	\$3.637	\$3.555	\$3.805	\$4.567	\$4.097	\$4.040	\$4.032	\$4.926	\$4.525	\$3.833
FY 2013	\$3.508	\$3.517	\$3.515	\$3.469	\$3.645	\$4.600	\$3.918	\$3.982	\$4.606	\$5.286	\$4.952	\$4.521
FY 2014	\$4.133	\$4.052	\$3.975	\$3.758	\$4.271	\$5.419	\$5.019	\$4.520	\$4.461	\$5.386	\$5.487	\$5.108
FY 2015	\$4.267	\$4.194	\$4.096	\$4.051	\$4.247	\$5.639	\$5.045	\$5.085	\$5.420	\$6.284	\$6.065	\$5.690
FY 2016	\$5.212	\$4.990	\$4.941	\$4.587	\$5.120	\$6.543	\$5.997	\$5.752	\$6.040	\$6.911	\$6.728	\$6.263
FY 2017	\$5.469	\$5.328	\$5.088	\$5.220	\$5.671	\$7.082	\$6.319	\$6.348	\$6.550	\$7.556	\$7.469	\$6.730
FY 2018	\$5.898	\$5.689	\$5.408	\$5.720	\$6.850	\$8.427	\$7.754	\$7.608	\$7.472	\$8.079	\$8.192	\$7.584
FY 2019	\$6.180	\$6.068	\$6.127	\$6.350	\$6.987	\$8.199	\$7.425	\$7.105	\$7.151	\$9.054	\$8.767	\$8.565

Amounts in billions

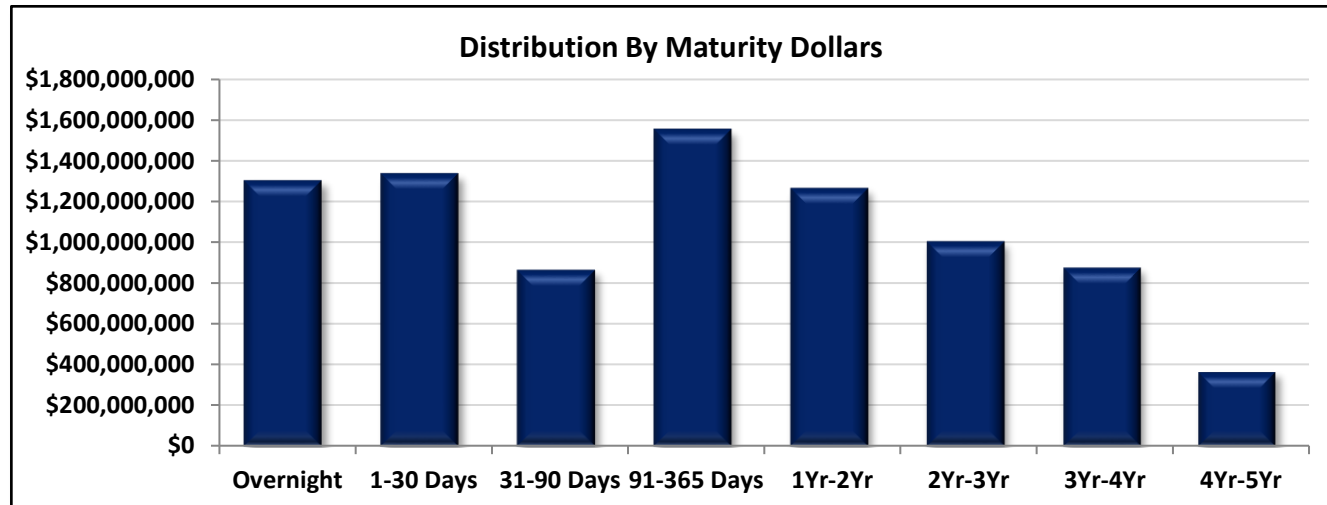


Santa Clara County Commingled Pool

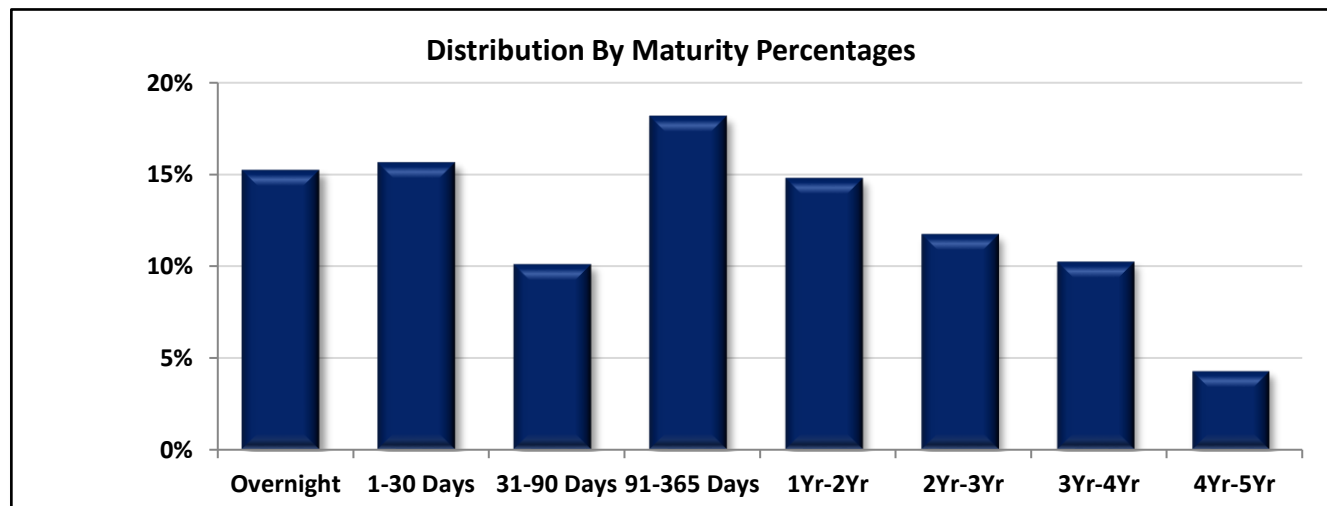
Distribution by Maturity

June 30, 2019

Maturity	Amount*
Overnight	1,302,904,682
1-30 Days	1,337,512,644
31-90 Days	863,211,086
91-365 Days	1,554,531,312
1Yr-2Yr	1,264,662,326
2Yr-3Yr	1,003,045,780
3Yr-4Yr	874,967,917
4Yr-5Yr	364,066,145
	8,564,901,892



Maturity	Amount*
Overnight	15.21%
1-30 Days	15.62%
31-90 Days	10.08%
91-365 Days	18.15%
1Yr-2Yr	14.77%
2Yr-3Yr	11.71%
3Yr-4Yr	10.22%
4Yr-5Yr	4.25%
	100.00%



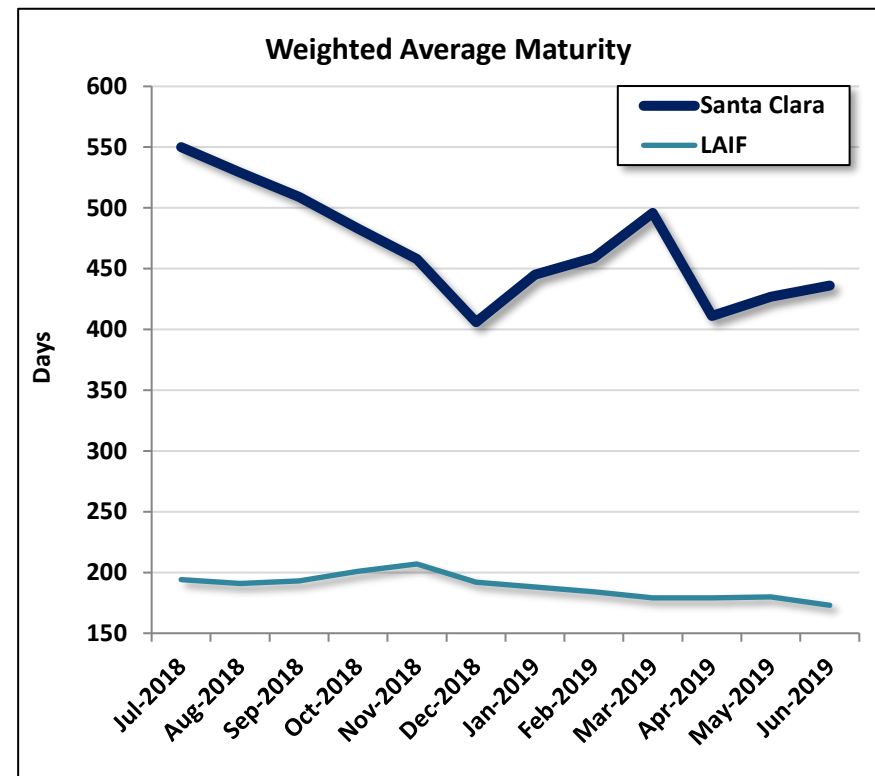
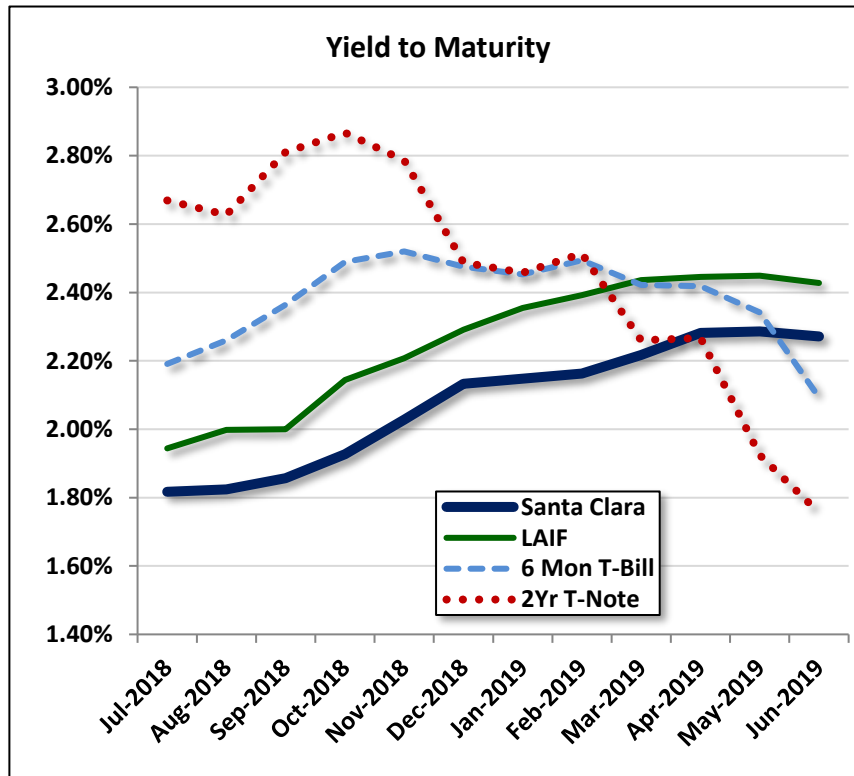
*Amounts are based on book value



Santa Clara County Commingled Pool

Yield to Maturity and Weighted Average Maturity

June 30, 2019



Item	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
SCC YTM	1.82%	1.82%	1.86%	1.93%	2.03%	2.13%	2.15%	2.16%	2.22%	2.28%	2.29%	2.27%
LAIF YTM	1.94%	2.00%	2.00%	2.14%	2.21%	2.29%	2.36%	2.39%	2.44%	2.45%	2.45%	2.43%
6 Mon T-Bill	2.19%	2.26%	2.36%	2.49%	2.52%	2.48%	2.45%	2.49%	2.42%	2.42%	2.34%	2.09%
2Yr T-Note	2.67%	2.63%	2.81%	2.87%	2.79%	2.49%	2.46%	2.51%	2.26%	2.27%	1.92%	1.76%
SCC WAM	550	529	509	483	458	406	445	459	496	411	427	436
LAIF WAM	194	191	193	201	207	192	188	184	179	179	180	173



Santa Clara County

Approved Issuers and Broker/Dealers

June 30, 2019

Direct Commercial Paper Issuers

Toyota Motor Credit
US Bank, NA
Dexia Credit Local, NY

Broker/Dealers

Academy Securities, Inc
Bank of America Merrill Lynch
Barclays Capital, Inc
BMO Capital Markets
BNP Paribas Securities Corp
BNY Mellon Capital Markets, LLC
BOK Financial Securities (Bank of Oklahoma)
Brean Capital LLC
Cantor Fitzgerald & Co
Citigroup Global Markets Inc
Daiwa Capital Markets America Inc
Deutsche Bank Securities Inc
FTN Financial Capital Markets
Incapital LLC
Jefferies & Co
JP Morgan Securities, Inc
Keybanc Capital Markets, Inc
Loop Capital Markets LLC
Mizuho Securities USA, Inc
MUFG Securities USA LLC
Raymond James, Inc.
RBC Capital Markets, Inc
UBS Financial Services Inc
Vining Sparks LP
Williams Capital

Santa Clara County Commingled Pool
Compliance with Investment Policy
June 30, 2019



Item/Sector	Parameters	In Compliance
Maturity	Weighted Average Maturity (WAM) must be less than 24 months	Yes
Interest Periods	Securities must pay interest within one year of the initial investment and at least semiannually in subsequent years	Yes
Investment Swaps	Similar maturity swaps, so as not to affect cash flow needs, should have minimum 5 basis point gain	Yes
Issuer Limits	No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, CP, Negotiable CDs, and Corporate Notes	Yes
U.S. Treasuries	No sector limit, no issuer limit, max maturity 5 years	Yes
U.S. Federal Agencies	No sector limit, no issuer limit, max maturity 5 years	Yes
LAIF	No sector limit, no issuer limit, CA State's deposit limit \$65 million	Yes
Repurchase Agreements	No sector limit, no Issuer limit, max maturity 92 days, treasury and agency collateral at 102% of investment, if maturity exceeds 15 days, must be collateralized by securities with 5 years or less maturities	Yes
Commercial Paper	Sector limit 40%, issuer limit 5%, max maturity 270 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by domestic corporation w/ at least \$500 mil of assets, and long term debt rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	Yes
Corporate Bonds	Sector limit 30%, issuer limit 5%, max maturity 5 years, rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's), issued by domestic corps/depositories	Yes
Money Market Funds	Sector limit 20%, issuer limit 10%, rated by at least two: AAA-m (S&P/Fitch)/Aaa-mf (Moody's), MMF has at least \$500 mil managed	Yes
Negotiable Certificates of Deposit	Sector limit 30%, issuer limit 5%, max maturity 5 years, if under 1 year rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), if greater than 1 year rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	Yes
Municipal Securities	Sector limit 10%, no issuer limit, State of CA, local CA agencies, and other municipal securities of the other 49 states, if long-term rated, then by at least two: A- (S&P/Fitch)/A3 (Moody's), if short-term rated, then by at least two: SP-1 (S&P), MIG-1 (Moody's), F-1 (Fitch), revenue based bonds payable solely out of the States' or local agencies' revenues	Yes
Mortgage-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of conforming residential mortgage loans insured by FHLMC/FNMA and residential mortgages guaranteed by FHA (GNMA)	Yes
Asset-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of loans such as installment/receivables, security must be rated by at least two: AA- (S&P/Fitch), Aa3 (Moody's), issuer rated by at least two: A- (S&P/Fitch), A3 (Moody's)	Yes
Supranational Debt Obligations	Sector limit 10%, max maturity 5 years, issued or unconditionally guaranteed by the IBRD, rated by at least two: AAA (S&P/Fitch), Aaa (Moody's)	Yes
Bankers' Acceptances	Sector limit 40%, issuer limit 5%, max maturity 180 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by commercial banks, collateral must exceed market value of security by 2%	Yes, None in Portfolio
Securities Lending	Sector limit 20%, max maturity 92 days for loans and reinvestment, loan counterparty must be a primary dealer, loaned securities must be owned for at least 30 days	Yes, None in Portfolio



Santa Clara County Commingled Pool

Allocation by Security Types

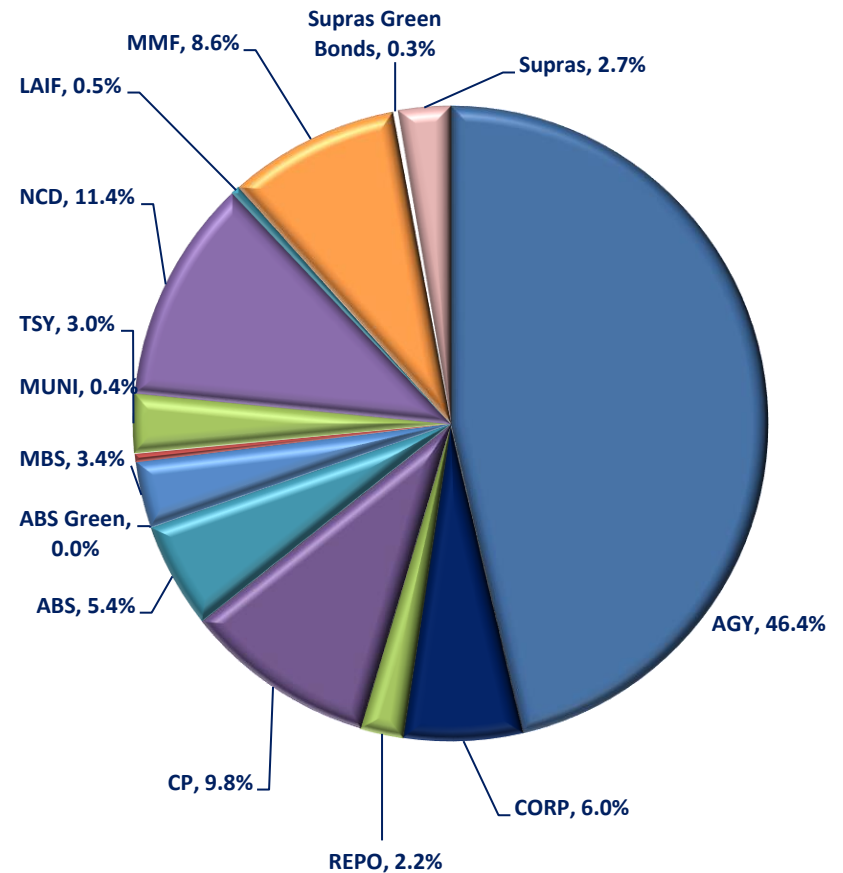
For the Month Ended April 30, 2019

Average Daily Balance \$ 8,608,998,788.43
 Book Yield 2.282%
 Weighted Average Maturity 411 Days

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 4,207.81	\$ 4,204.31	\$ 4,192.72
Corporate Bonds	544.56	544.27	543.87
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	886.63	882.62	882.60
Asset-Backed Securities	485.15	485.02	485.63
Asset-Backed Sec Green Bds	0.35	0.35	0.35
Mortgage Backed Securities	304.28	304.20	305.99
Municipal Securities	37.64	37.69	37.43
U.S. Treasuries	275.00	274.23	274.17
Negotiable CDs	1,030.00	1,030.00	1,030.65
LAIF	41.78	41.78	41.78
Money Market Funds	782.30	782.30	782.30
Supranationals Green Bonds	25.00	25.00	25.01
Supranationals	242.00	242.14	241.46
Total	\$ 9,062.50	\$ 9,053.89	\$ 9,043.97

*Represents Amortized Book Value

Asset Allocation By Market Value





Santa Clara County Commingled Pool

Allocation by Security Types

For the Month Ended May 31, 2019

Average Daily Balance \$ 8,920,878,183.75
 Book Yield 2.286%
 Weighted Average Maturity 427 Days

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,979.70	\$ 3,976.55	\$ 3,978.86
Corporate Bonds	567.30	567.05	568.53
Repurchase Agreements	200.00	200.00	200.00
Commercial Paper	896.63	893.52	893.21
Asset-Backed Securities	489.35	489.21	491.14
Asset-Backed Sec Green Bds	0.19	0.19	0.19
Mortgage Backed Securities	322.97	322.55	327.90
Municipal Securities	34.39	34.44	34.34
U.S. Treasuries	255.00	254.60	254.64
Negotiable CDs	1,015.00	1,015.00	1,015.55
LAIF	41.78	41.78	41.78
Money Market Funds	704.65	704.65	704.65
Supranationals Green Bonds	25.00	25.00	25.01
Supranationals	242.00	242.23	242.09
Total	\$ 8,773.96	\$ 8,766.76	\$ 8,777.90

*Represents Amortized Book Value

Asset Allocation By Market Value

