

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 16, 2019

NEW ISSUE -- FULL BOOK-ENTRY

RATING: S&P: "A+"
See "RATING" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, based upon existing laws, regulations, rulings, court decisions, and assuming (among other things) compliance with certain covenants, interest on the Refunding Bonds is exempt from State of California personal income taxes. Interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds. See "TAX MATTERS" herein.

\$18,000,000*
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2019 General Obligation Refunding Bonds
(Federally Taxable)

Dated: Date of Delivery

Due: August 1, as shown on inside cover

Issuance. The above-captioned bonds (the "Refunding Bonds") are being issued by the McKinleyville Union School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Board of Trustees of the District adopted on August 14, 2019 (the "Bond Resolution"). The Refunding Bonds are being issued to refund certain outstanding general obligation bonds and general obligation refunding bonds of the District, and to pay costs of issuance. See "THE REFUNDING BONDS – Authority for Issuance" and "THE REFINANCING PLAN."

Security. The Refunding Bonds are general obligation bonds of the District payable solely from *ad valorem* property taxes levied and collected within the District. The Board of Supervisors of Humboldt County (the "County") has the power and is obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Refunding Bonds. The District has other series of general obligation bonds outstanding that are similarly secured by *ad valorem* property tax levies. See "SECURITY FOR THE REFUNDING BONDS."

Redemption.* The Refunding Bonds are subject to redemption prior to maturity under certain circumstances, as described herein. See "THE REFUNDING BONDS – Redemption."

Book-Entry Only. The Refunding 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 The Depository Trust Company ("DTC"). Purchasers will not receive physical certificates representing their interests in the Refunding Bonds. See "THE REFUNDING BONDS - Book-Entry Only System."

Payments. The Refunding Bonds are dated the date of delivery and are being issued as Current Interest Bonds and Capital Appreciation Bonds (each as defined herein). The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity or earlier redemption, commencing February 1, 2020. The Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2020, until payment of the accreted value thereof at maturity or upon earlier redemption. Payments of principal of and interest on the Refunding Bonds will be paid by U.S. Bank National Association, as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS - Description of the Refunding Bonds." See "THE REFUNDING BONDS."

Bond Insurance. The District has applied for bond insurance to guarantee the scheduled payment of principal of and interest on the Refunding Bonds, and will decide prior to the sale of the Refunding Bonds whether to purchase such insurance.

MATURITY SCHEDULE

(see inside front cover)

This cover page contains information for general reference only. It is not a summary of all the provisions of the Refunding Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Refunding Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation is serving as counsel to the Underwriter. It is anticipated that the Refunding Bonds, in book-entry form, will be available for delivery through the facilities of DTC, on or about September 12, 2019.

RAYMOND JAMES®

The date of this Official Statement is _____, 2019.

**Preliminary; subject to change.*

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE*

**MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2019 General Obligation Refunding Bonds
(Federally Taxable)**

Base CUSIP[†]: _____

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP[†] No.
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\$ _____ % Term Bonds maturing August 1, 20__; Yield: __%; Price: ____;
CUSIP[†]: ____

\$ _____ Denominational Amount
(\$ _____ Maturity Value)
Capital Appreciation Bonds

Maturity Date (August 1)	Denominational Amount	Accretion Rate	Yield to Maturity	Maturity Value	CUSIP[†] No.
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\$ _____ % Capital Appreciation Term Bonds maturing August 1, 20__; Yield: __%;
Price: ____; CUSIP[†]: ____

**Preliminary; subject to change.*

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Refunding Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any Refunding Bond owner and the District or the Underwriter.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Refunding Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Projections. 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, 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.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. tax

Document Summaries. All summaries of the Bond Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

Involvement of Underwriter. The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to 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

No Securities Laws Registration. The Refunding Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Refunding Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Refunding Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

Stabilization of Market Price. In connection with the offering of the Refunding Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of such Refunding Bonds at levels above those that might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

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

**MCKINLEYVILLE UNION SCHOOL DISTRICT
COUNTY OF HUMBOLDT
STATE OF CALIFORNIA**

BOARD OF TRUSTEES

Nicholas Som, *President*
Alvin Sager, *Clerk*
Sara Alto, *Trustee*
Amber Flowers, *Trustee*
Tracy Helard-Shumard, *Trustee*

DISTRICT ADMINISTRATION

Heidi Moore-Guynup, *Superintendent*
Jeff Brock, *Chief Business Official*

PROFESSIONAL SERVICES

BOND AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Isom Advisors, a Division of Urban Futures, Inc.
Walnut Creek, California

**PAYING AGENT, TRANSFER AGENT, ESCROW BANK
AND BOND REGISTRAR**

U.S. Bank National Association
Los Angeles, California

ESCROW VERIFICATION

Causey Demgen & Moore P.C.
Denver, Colorado

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OFFICIAL STATEMENT

\$18,000,000*

MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2019 General Obligation Refunding Bonds
(Federally Taxable)

This Official Statement, which includes the cover page, inside cover page and appendices hereto, provides information in connection with the sale and delivery by the McKinleyville Union School District (the “**District**”) of the above-captioned general obligation refunding bonds (the “**Refunding Bonds**”).

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page 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 Refunding Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District provides services to the community of McKinleyville, an unincorporated area of Humboldt County (the “**County**”) about 5 miles north of the city of Arcata. The District operates two elementary schools and one middle school, with enrollment for the 2019-20 school year projected to be approximately 1,134 students.

For more information regarding the District and its finances generally, see APPENDIX A and APPENDIX B attached hereto. See also APPENDIX C hereto for demographic and other information regarding the City and County.

Purpose. The Refunding Bonds are being issued by the District to refinance certain outstanding maturities of the District’s General Obligation Bonds Election of 2008, Series B (the “**2008B Bonds**”) and 2014 General Obligation Refunding Bonds (the “**2014 Refunding Bonds**”) and to pay costs of issuance. See “THE REFINANCING PLAN.”

Authority for Issuance of the Refunding Bonds. The Refunding Bonds will be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “**Bond Law**”) and under a resolution adopted by the Board of Trustees of the District on August 14, 2019 (the “**Bond Resolution**”). See “THE REFUNDING BONDS - Authority for Issuance.”

*Preliminary; subject to change.

Security and Sources of Payment for the Refunding Bonds. The Refunding Bonds are general obligation bonds of the District, payable solely from *ad valorem* property taxes levied and collected within the District. The County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of interest on, and principal of, the Refunding Bonds upon all property subject to taxation in the District, without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates). See “SECURITY FOR THE REFUNDING BONDS.”

The District has other series of general obligation bonds outstanding that are similarly payable from *ad valorem* taxes. For the remaining debt service of the District’s outstanding general obligation bonds, see “DEBT SERVICE SCHEDULES – Combined General Obligation Debt Service.” See also APPENDIX A – “GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT- DISTRICT FINANCIAL INFORMATION - Long-Term Indebtedness.”

Payment and Registration of the Refunding Bonds. The Refunding Bonds are being issued as current interest bonds. The Refunding Bonds will be dated their date of original issuance and delivery (the “**Dated Date**”) and will be issued as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple of \$5,000, registered in the name of Cede & Co. as nominee of DTC, and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through participants in DTC’s book-entry only system (“**DTC Participants**”) as described below. Beneficial Owners will not be entitled to receive physical delivery of the Refunding Bonds. See “THE REFUNDING BONDS” and APPENDIX F.

The Current Interest Bonds accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity or earlier redemption, commencing February 1, 2020. The Capital Appreciation Bonds accrete interest at the accretion rates set forth on the inside cover page hereof, compounded semiannually on February 1 and August 1 of each year, commencing on February 1, 2020, until payment of the accreted value thereof at maturity or upon earlier redemption. See “THE REFUNDING BONDS - Description of the Refunding Bonds.”

Redemption. The Refunding Bonds are subject to redemption prior to their maturity as described in “THE REFUNDING BONDS – Redemption.”

Legal Matters. Issuance of the Refunding Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Bond Counsel**”), to be delivered in substantially the form attached hereto as APPENDIX D. Jones Hall, A Professional Law Corporation, San Francisco, California, is also serving as Disclosure Counsel to the District (“**Disclosure Counsel**”). Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, is serving as counsel to the Underwriter (“**Underwriter’s Counsel**”). *Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel is contingent upon issuance of the Refunding Bonds.*

Bond Insurance. The District has applied for bond insurance to guarantee the scheduled payment of principal of and interest on the Refunding Bonds and, if a commitment is issued to insure the Refunding Bonds, will determine prior to the sale of the Refunding Bonds whether to obtain such insurance. See “BOND INSURANCE.”

Tax Matters. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Bond Counsel**”), based upon existing laws, regulations, rulings and court decisions, and assuming (among other things) compliance with certain covenants, interest on the

Refunding Bonds is exempt from State of California personal income taxes. Interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel express no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds. See "TAX MATTERS" for additional information, and APPENDIX D hereto for the form of Bond Counsel's opinion to be delivered concurrently with the Refunding Bonds.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated the date of the Refunding Bonds and executed by the District (the "**Continuing Disclosure Certificate**"). The form of the Continuing Disclosure Certificate is included in APPENDIX E hereto. See "CONTINUING DISCLOSURE."

Other Information. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement is not to be construed as a contract with the purchasers of the Refunding 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 entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein 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 Refunding Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

END OF INTRODUCTION

THE REFINANCING PLAN

As described herein, the proceeds of the Refunding Bonds will be used to refund, on an advance basis, the Refunded Bonds (as defined below), and to pay related costs of issuance.

The Refunded Bonds

The 2008B Bonds. The 2008B Bonds were authorized at an election of the registered voters of the District held on June 3, 2008, which authorized the issuance of \$14,000,000 of general obligation bonds to finance the construction and modernization of school facilities for the District (the “**2008 Authorization**”). The 2008B Bonds were issued as current interest bonds, capital appreciation bonds and convertible capital appreciation bonds, in the aggregate principal amount of \$6,999,907.50. The 2008B Bonds issued as convertible capital appreciation bonds maturing on August 1, 2041 are subject to optional redemption on or after August 1, 2026, at a redemption price of 100% of the principal amount being redeemed, plus any accrued interest, without premium.

The Refunding Bonds are being issued by the District, in part, to refund the maturities of the 2008B Bonds, as more particularly identified in the following table (the “**2008B Refunded Bonds**”).

MCKINLEYVILLE UNION SCHOOL DISTRICT Identification of 2008B Refunded Bonds*

Maturities Payable from Escrow (August 1)	CUSIP†	Initial Principal Amount*	Accretion Rate	Conversion Value	Value at Redemption	Redemption Date	Redemption Price
2041	58172BZO	\$1,846,800.00	7.050	\$3,800,000	\$3,800,000	08/01/2026	100%

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

The 2014 Refunding Bonds. The 2014 Refunding Bonds were issued as capital appreciation bonds in the aggregate principal amount of \$7,327,431.25 in order to refund certain maturities of the 2008B Bonds. The 2014 Refunding Bonds are subject to optional redemption on or after August 1, 2021, at a redemption price of 100% of the principal amount being redeemed, plus any accrued interest, without premium.

The Refunding Bonds are being issued by the District, in part, to refund all outstanding maturities of the 2014 Refunding Bonds, as more particularly identified in the following table (the “**2014 Refunded Bonds**” and together with the 2008B Refunded Bonds, the “**Refunded Bonds**”).

**MCKINLEYVILLE UNION SCHOOL DISTRICT
Identification of 2014 Refunded Bonds***

Maturities Payable from Escrow (August 1)	CUSIP†	Initial Denominational Amount	Accretion Rate	Maturity Value	Value at Redemption	Redempt ion Date	Redemption Price
2035	58172CK2	\$573,278.40	5.110%	\$1,640,000	\$809,176.00	8/01/2021	100%
2036	58172CL0	591,912.00	5.160	1,800,000	838,260.00	8/01/2021	100
2037	58172CM8	610,552.80	5.220	1,980,000	868,131.00	8/01/2021	100
2038	58172CN6	629,668.60	5.250	2,165,000	897,089.40	8/01/2021	100
2039	58172CP1	425,971.00	5.270	1,550,000	607,693.00	8/01/2021	100
2042	58172CQ9	810,110.00	3.280	3,550,000	1,164,187.00	8/01/2021	100
2043	58172CR7	825,435.00	5.390	3,825,000	1,187,012.25	8/01/2021	100
2044	58172CS5	839,583.45	5.400	4,115,000	1,208,164.00	8/01/2021	100
2047T	58172CT3	2,020,920.00	5.500	12,000,000	2,927,640.00	8/01/2021	100
		\$7,327,341.25		\$32,625,000	\$10,507,352.65		

* Preliminary, subject to change.

T Term Bond.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

Deposits in Escrow Fund

The District will deliver the net proceeds of the Refunding Bonds to U.S. Bank National Association, as escrow bank (the “**Escrow Bank**”), for deposit in an escrow fund (the “**Escrow Fund**”) established under an Escrow Agreement (the “**Escrow Agreement**”), between the District and the Escrow Bank. The Escrow Bank will invest such funds in certain federal securities (“**Escrow Fund Securities**”) and/or hold funds in cash, and will apply such funds, together with interest earnings (if any) on the investment of such funds in Escrow Fund Securities, to pay the principal of and interest on the Refunded Bonds, including the redemption price of the Refunded Bonds, as set forth above, together with accrued interest to the redemption date identified above.

Sufficiency of the deposits in the Escrow Fund for the foregoing purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”). See “**VERIFICATION OF MATHEMATICAL ACCURACY**” herein. As a result of the deposit of funds with the Escrow Bank on the date of issuance of the Refunding Bonds, the Refunded Bonds will be legally defeased and will be payable solely from amounts held for that purpose under the Escrow Agreement, and will cease to be secured by *ad valorem* property taxes levied in the District.

The Escrow Fund Securities, if any, and cash held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the Refunded Bonds, and will not be available for the payment of debt service with respect to the Refunding Bonds.

THE REFUNDING BONDS

Authority for Issuance

The Refunding Bonds will be issued under the authority of and pursuant to the Bond Law and the Bond Resolution.

Description of the Refunding Bonds

The Refunding Bonds are being issued as current interest bonds (the “**Current Interest Bonds**”) and capital appreciation bonds (the “**Capital Appreciation Bonds**”). The Refunding Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Refunding Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Refunding Bonds. See “- Book-Entry Only System” below and APPENDIX F.

Current Interest Bonds

The Current Interest Bonds shall be issued in the denominations of \$5,000 principal amount each or any integral multiple thereof. Interest on the Current Interest Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2020 (each, an “**Interest Payment Date**”). Each Current Interest Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the 15th day of the month preceding the Interest Payment Date (each, a “**Record Date**”), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to January 15, 2020, in which event it will bear interest from the date of delivery of the Bonds identified on the cover page hereof. Notwithstanding the foregoing, if interest on any Current Interest Bond is in default at the time of authentication thereof, such Current Interest Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Current Interest Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Current Interest Bonds.

Capital Appreciation Bonds

The following terms used herein are defined in the Bond Resolution to have the following meanings with respect to the Capital Appreciation Bonds:

“**Accreted Value**” means, with respect to any Capital Appreciation Bond, the total amount of principal thereof and interest payable thereon as of any Compounding Date determined solely by reference to the Table of Accreted Values set forth on such Capital

Appreciation Bond, which is attached to this Official Statement as Appendix G. The Accreted Value of any Capital Appreciation Bond as of any date other than a Compounding Date will be the sum of (a) the Accreted Value as of the Compounding Date immediately preceding the date as of which the calculation is being made plus (b) interest on the Accreted Value determined under the preceding clause (a), computed to the date as of which the calculation is being made at the Accretion Rate set forth on such Capital Appreciation Bond (computed on the basis of a 360-day year of twelve 30-day months).

“Accretion Rate” means the rate which, when applied to the principal amount of any Capital Appreciation Bond and compounded semiannually on each Compounding Date, produces the Maturity Value of such Capital Appreciation Bond on the maturity date thereof.

“Capital Appreciation Bonds” means bonds the interest on which is compounded semiannually on each Compounding Date and is payable in full at maturity as shown in the table of Accreted Value for the Capital Appreciation Bonds and attached to this Official Statement as Appendix G.

“Closing Date” means the date upon which there is a delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Underwriter.

“Compounding Date” means, with respect to any Capital Appreciation Bond, each February 1 and August 1, commencing February 1, 2020, to and including the date of maturity or redemption of such Capital Appreciation Bond.

“Denominational Amount” means, with respect to any Capital Appreciation Bond, the original amount of such Capital Appreciation Bond as of the Closing Date.

“Maturity Value” means, with respect to any Capital Appreciation Bond, the Accreted Value of such Capital Appreciation Bond to be paid at maturity.

As provided in the Bond Resolution, references therein and in this Official Statement to the payment of the principal of and interest on the Bonds includes payment of the Accreted Value and Maturity Value of the Capital Appreciation Bonds, unless otherwise required by the context or by the express provisions of such reference. Further, whenever in the Bond Resolution or in this Official Statement, any reference is made to the rights of the owners of the Bonds as measured by the principal amount of such Bonds, the principal amount of the Capital Appreciation Bonds is deemed to be the Accreted Value thereof as of the date of exercise of such rights.

The Capital Appreciation Bonds are dated the date of delivery, and accrete interest from such date. The Denominational Amount of each maturity of the Capital Appreciation Bonds shall be as shown on the inside cover page hereof. The Capital Appreciation Bonds are issued in denominations such that the Maturity Value thereof shall equal \$5,000 or an integral multiple thereof. The Capital Appreciation Bonds are payable only at maturity, in the years and amounts set forth on the inside cover page hereof.

Interest on the Capital Appreciation Bonds is compounded on February 1 and August 1 of each year, commencing February 1, 2020. Each Capital Appreciation Bond accretes in value daily over the term to its maturity, from its Denominational Amount on the Closing Date to its

Accreted Value on its maturity date. The Accreted Value payable on any date shall be determined solely by reference to the Table of Accreted Values attached to such Capital Appreciation Bond. See APPENDIX G.

The interest portion of the Accreted Value of any Capital Appreciation Bond that is payable on the date of maturity shall represent interest accreted and coming due on such date. The Accreted Value of any Capital Appreciation Bond at maturity shall be payable by check or draft mailed by first-class mail, in lawful money of the United States of America upon presentation and surrender of such Bond at the Office of the Paying Agent. See APPENDIX F.

Paying Agent

U.S. Bank National Association, will act as the registrar, transfer agent, and paying agent for the Refunding Bonds (the “**Paying Agent**”). As long as DTC is the registered owner of the Refunding Bonds and DTC’s book-entry method is used for the Refunding Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Refunding Bonds called for redemption or of any other action covered by such notice.

The Paying Agent, the District, the County and the Underwriter of the Refunding Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Refunding Bonds.

Redemption*

Optional Redemption.

Current Interest Bonds. The Current Interest Bonds maturing on or before August 1, 20__ are not subject to redemption prior to maturity. The Current Interest Bonds maturing on or after August 1, 20__ are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 20__, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

Capital Appreciation Bonds. The Capital Appreciation Bonds are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 20__, or on any date thereafter, at a price equal to 100% of the Accreted Value thereof as of the date of redemption, without premium.

For the purpose of selection for optional redemption, Refunding Bonds will be deemed to consist of \$5,000 portions (principal amount), and any such portion may be separately redeemed.

* Preliminary; subject to change.

Mandatory Sinking Fund Redemption.

Current Interest Bonds. The Current Interest Bonds maturing on August 1, 20__, (the “**Current Interest Term Bonds**”), are subject to mandatory sinking fund redemption on August 1 of each year in accordance with the schedule set forth below. The Current Interest Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments in the amounts and on the dates set forth below, without premium.

\$ _____ **Current Interest Term Bonds Maturing August 1, 20__**

Redemption Date (August 1)	Sinking Fund Redemption
_____	_____

\$ _____ **Current Interest Term Bonds Maturing August 1, 20__**

Redemption Date (August 1)	Sinking Fund Redemption
_____	_____

If any such Current Interest Term Bonds are redeemed pursuant to optional redemption, the total amount of all future sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 principal amount (or on such other basis as the District may determine) as set forth in written notice given by the District to the Paying Agent.

Capital Appreciation Bonds. The Capital Appreciation Bonds maturing on August 1, 20__ (the “**Capital Appreciation Term Bonds**”), are subject to mandatory sinking fund redemption on August 1 of each year in accordance with the schedule set forth below. The Capital Appreciation Term Bonds so called for mandatory sinking fund redemption shall be redeemed in the sinking fund payments in the amounts and on the dates set forth below, without premium.

\$ _____ **Capital Appreciation Term Bonds Maturing August 1, 20__**

Redemption Date (August 1)	Sinking Fund Payment
_____	_____

\$ _____ **Capital Appreciation Term Bonds Maturing August 1, 20__**

Redemption Date (August 1)	Sinking Fund Payment
_____	_____

If any such Capital Appreciation Term Bonds are redeemed pursuant to the optional redemption provisions described above, the total amount of all future sinking fund payments with respect to such Capital Appreciation Interest Term Bonds shall be reduced by the aggregate principal amount of such Capital Appreciation Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 Maturity Value (or on such other basis as the District may determine) as set forth in written notice given by the District to the Paying Agent.

Partial Redemption of Refunding Bonds

Upon the surrender of any Refunding Bond redeemed in part only, the Paying Agent shall execute and deliver to the owner thereof a new Refunding Bond or Refunding Bonds of like tenor and maturity and of authorized denominations (or of like Accreted Value in the case of the Capital Appreciation Bonds) equal in transfer amounts to the unredeemed portion of the Refunding Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such owner, and the County and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Selection of Refunding Bonds for Redemption

Whenever less than all of the outstanding maturities of the Refunding Bonds is designated for redemption, the Paying Agent shall select the maturities to be redeemed as directed by the District. Whenever less than all of the outstanding Refunding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Refunding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Refunding Bond will be deemed to consist of individual bonds of \$5,000 denominations each which may be separately redeemed.

Notice of Redemption

The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Refunding Bonds designated for redemption, at their addresses appearing on the records maintained by the Paying Agent for the registration of ownership and registration of transfer of the Refunding Bonds (the “**Registration Books**”). Such mailing is not a condition precedent to such redemption and the failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Refunding Bonds. In addition, the Paying Agent will give notice of redemption by telecopy or certified, registered or overnight mail to the Municipal Securities Rulemaking Board and each of the Securities Depositories at least two days prior to such mailing to the Refunding Bond Owners.

Such notice may be conditional and shall state the redemption date and the redemption price and, if less than all of the then outstanding Refunding Bonds are to be called for redemption, shall designate the serial numbers of the Refunding Bonds to be redeemed by giving the individual number of each Refunding Bond or by stating that all Refunding Bonds between two stated numbers, both inclusive, or by stating that all of the Refunding Bonds of one or more maturities have been called for redemption, and shall require that such Refunding Bonds be then surrendered at the Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Refunding Bonds will not accrue from and after the redemption date.

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest (and premium, if any) on the Refunding Bonds so called for redemption have been duly provided, the Refunding Bonds called for redemption will cease to be entitled to any benefit under the Bond Resolution other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the notice.

Right to Rescind Notice of Redemption

The District has the right to rescind any notice of the optional redemption of Refunding Bonds by written notice to the Paying Agent on or prior to the dated fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Refunding Bonds then called for redemption. The District and the Paying Agent have no liability to the Refunding Bond owners or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Bond Resolution.

Defeasance

The Refunding Bonds may be paid by the District, in whole or in part, in any one or more of the following ways:

- (a) by paying or causing to be paid the principal or redemption price of and interest on such Refunding Bonds (or the Maturity Value or Accreted Value thereof, in the case of Capital Appreciation Bonds), as and when the same become due and payable;
- (b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such Refunding Bonds; or
- (c) by delivering such Refunding Bonds to the Paying Agent for cancellation by it.

Whenever in the Bond Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Refunding Bonds, the money or securities so to be deposited or held may be held by the Paying Agent or by any other fiduciary. Such money or securities may include money or securities held by the Paying Agent in the funds and accounts established under the Bond Resolution and will be:

- (i) lawful money of the United States of America in an amount equal to the principal amount of such Refunding Bonds and all unpaid interest thereon to maturity, except that, in the case of Refunding Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption

price of such Refunding Bonds and all unpaid interest thereon to the redemption date; or

- (ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the County and the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Refunding Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Refunding Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice.

Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as described above) to pay or redeem any outstanding Refunding Bond (whether upon or prior to its maturity or the redemption date of such Refunding Bond), then all liability of the County and the District in respect of such Refunding Bond will cease and be completely discharged, except only that thereafter the owner thereof will be entitled only to payment of the principal of and interest on such Refunding Bond by the District, and the District will remain liable for such payment, but only out of such money or securities deposited with the Paying Agent for such payment.

As used in the foregoing defeasance provision, the term “**Federal Securities**” means United States Treasury notes, bonds, bills or certificates of indebtedness, or any other obligations the timely payment of which is directly or indirectly guaranteed by the faith and credit of the United States of America.

Book-Entry Only System

The Refunding Bonds will be registered initially in the name of “Cede & Co.,” as nominee of DTC, which has been appointed as securities depository for the Refunding Bonds, and registered ownership may not be transferred thereafter except as provided in the Bond Resolution. Purchasers will not receive certificates representing their interests in the Refunding Bonds. Principal of the Refunding Bonds will be paid by the Paying Agent to DTC, which in turn is obligated to remit such principal to its participants for subsequent disbursement to beneficial owners of the Refunding Bonds as described herein. See APPENDIX F for additional information about DTC’s book-entry only system.

Registration, Transfer and Exchange of Bonds

If the book entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Refunding Bonds.

If the book entry system is discontinued, the person in whose name a Refunding Bond is registered on the Registration Books shall be regarded as the absolute owner of that Refunding Bond. Payment of the principal of and interest on any Refunding Bond shall be made only to or upon the order of that person; neither the District, the County nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided in the Bond Resolution.

Refunding Bonds may be exchanged at the principal corporate trust office of the Paying Agent for a like aggregate principal amount of Refunding Bonds of authorized denominations and of the same maturity. Any Refunding Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Refunding Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Resolution, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Refunding 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.

No exchanges of Refunding Bonds shall be required to be made (a) fifteen days prior to an Interest Payment Date or the date established by the Paying Agent for selection of Refunding Bonds for redemption until the close of business on the Interest Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Refunding Bond after such Refunding Bond has been selected or called for redemption in whole or in part.

DEBT SERVICE SCHEDULES

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

MCKINLEYVILLE UNION SCHOOL DISTRICT Annual Debt Service Schedule 2019 General Obligation Refunding Bonds

Date (August 1)	Current Interest Bonds		Capital Appreciation Bonds		Total
	Principal	Interest	Denominational Amount	Accreted Interest	
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
2046					
2047					
Total					

Combined General Obligation Debt Service. The following table shows the combined annual debt service schedule with respect to outstanding general obligation and general obligation refunding bonds of the District, assuming no optional redemptions. See also APPENDIX A under the heading “DISTRICT FINANCIAL INFORMATION – Long-Term Indebtedness.”

**MCKINLEYVILLE UNION SCHOOL DISTRICT
 Combined Annual Debt Service Schedule
 All Outstanding General Obligation Bonds**

Period Ending (Aug.1)	2008 Series A Bonds	2008 Election Series B ⁽¹⁾	2014 Refunding Bonds ⁽²⁾	2015 Refunding Bonds	The Refunding Bonds	Total Outstanding Bonds
2020	\$90,212.50	\$265,000.00	--	\$337,850.00		
2021	172,012.50	235,000.00	--	340,000.00		
2022	--	267,900.00	--	537,000.00		
2023	--	302,900.00	--	565,000.00		
2024	--	337,900.00	--	596,400.00		
2025	--	382,900.00	--	626,000.00		
2026	--	427,900.00	--	658,800.00		
2027	--	470,343.76	--	699,600.00		
2028	--	525,343.76	--	733,000.00		
2029	--	585,343.76	--	769,200.00		
2030	--	605,343.76	--	858,000.00		
2031	--	830,343.76	--	742,200.00		
2032	--	690,343.76	--	774,800.00		
2033	--	895,343.76	--	--		
2034	--	1,965,343.76	--	--		
2035	--	470,343.76	\$1,640,000.00	--		
2036	--	470,343.76	1,800,000.00	--		
2037	--	470,343.76	1,980,000.00	--		
2038	--	470,343.76	2,165,000.00	--		
2039	--	1,265,343.76	1,550,000.00	--		
2040	--	3,071,712.50	--	--		
2041	--	3,307,845.00	--	--		
2042	--	--	3,550,000.00	--		
2043	--	--	3,825,000.00	--		
2044	--	--	4,115,000.00	--		
2045	--	--	4,431,970.40	--		
2046	--	--	4,773,787.20	--		
2047	--	--	2,020,000.00	--		
Totals	\$262,225.00	\$18,313,526.38	\$31,850,757.60	\$8,237,850.00		

(1) Expected to be refunded, in part, with the proceeds of the Refunding Bonds. See “THE REFINANCING PLAN.
 (2) Expected to be refunded, in whole, with the proceeds of the Refunding Bonds. ”

SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of Refunding Bonds
[Net] Original Issue [Premium/Discount]
Total Sources

Uses of Funds

Escrow Fund
Costs of Issuance⁽¹⁾
Total Uses

(1) All estimated costs of issuance including, but not limited to, Underwriter's discount, printing costs, and fees of Bond Counsel, Disclosure Counsel, the municipal advisor, the Paying Agent, Escrow Bank, bond insurance premium (if any), and the rating agency.

SECURITY FOR THE REFUNDING BONDS

Ad Valorem Taxes

Refunding Bonds Payable from Ad Valorem Property Taxes. The Refunding Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied and collected within the District by the County. The County is empowered and is obligated to annually levy *ad valorem* property taxes for the payment of the Refunding Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). In no event is the District obligated to pay principal of and interest and redemption premium, if any, on the Refunding Bonds out of any funds or properties of the District other than *ad valorem* property taxes levied upon all taxable property in the District; provided, however, nothing in the Bond Resolution prevents the District from making advances of its own moneys howsoever derived to any of the uses or purposes permitted by law.

Other Bonds Payable from Ad Valorem Property Taxes. The District has previously issued other general obligation bonds, which are payable from *ad valorem* property taxes on a parity basis. In addition to the general obligation bonds issued by the District, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* property taxes levied on parcels in the District. See "PROPERTY TAXATION – Direct and Overlapping Debt" below.

Levy and Collection. The County will levy and collect such *ad valorem* property taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Refunding Bonds, which is maintained by the County, and which is irrevocably pledged for the payment of principal of and interest on the Refunding Bonds when due.

District property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property. See "PROPERTY TAXATION -Teeter Plan" below.

Statutory Lien on Ad Valorem Tax Revenues. In accordance with Section 53515 of the California Government Code, the Refunding Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the *ad valorem* tax imposed to service the Refunding Bonds. This lien automatically arises without the need for any action or authorization by the District or the Board. The revenues received pursuant to the levy and collection of the *ad valorem* tax shall be immediately subject to the lien, and the lien shall immediately attach to the revenues and be effective, binding, and enforceable against the District, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act.

Annual Tax Rates. The amount of the annual *ad valorem* property tax levied by the County to repay the Refunding Bonds 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 Refunding Bonds. Fluctuations in the annual debt service on the Refunding Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate.

Economic and other factors beyond the District’s control, such as economic recession, deflation of property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire, drought or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Debt Service Fund

The County will establish a Debt Service Fund (the “**Debt Service Fund**”) for the Refunding Bonds, which will be established as a separate fund to be maintained distinct from all other funds of Humboldt County. All taxes levied by the County for the payment of the principal of and interest and premium (if any) on the Refunding Bonds will be transferred to and deposited in the Debt Service Fund promptly upon receipt. The Debt Service Fund is pledged for the payment of the principal of and interest and premium (if any) on the Refunding Bonds when and as the same become due. The District will transfer amounts in the Debt Service Fund to the Paying Agent to the extent necessary to pay the principal of and interest and premium (if any) on the Refunding Bonds as the same become due and payable.

If, after payment in full of the Refunding Bonds, any amounts remain on deposit in the Debt Service Fund, the District shall transfer such amounts to other debt service funds of the District with respect to outstanding general obligation bonds of the District, if any, and if none, then to its general fund, to be applied solely in a manner which is consistent with the requirements of applicable state and federal tax law.

Not a County Obligation

The Refunding Bonds are payable solely from the proceeds of an *ad valorem* tax levied and collected by the County, for the payment of principal and interest on the Refunding Bonds. Although the County is obligated to collect the *ad valorem* tax for the payment of the Refunding Bonds, the Refunding Bonds are not a debt of the County.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing (1) state assessed public utilities’ property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% 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 applicable county.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, Senate Bill 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, Senate Bill 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization (“SBE”) and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as “unitary

property,” a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and “operating nonunitary” property (which excludes nonunitary property of regulated railways) is allocated to the County based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Assessed Valuations

Assessed Valuation History. The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see APPENDIX A under the heading “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.”

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

The following table sets forth a recent history of the assessed value in the District.

**MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 2005-06 through 2018-19**

Fiscal Year	Local Secured	Utility	Unsecured	Total	% Change
2005-06	\$893,361,248	\$0	\$42,051,862	\$935,413,110	--%
2006-07	1,005,830,998	0	41,164,448	1,046,995,446	11.9
2007-08	1,103,523,150	0	46,866,724	1,150,389,874	9.9
2008-09	1,178,798,060	0	52,117,184	1,230,915,244	7.0
2009-10	1,223,003,494	0	56,649,075	1,279,652,569	4.0
2010-11	1,236,444,401	0	48,389,576	1,284,833,977	0.4
2011-12	1,257,737,780	0	48,410,526	1,306,148,306	1.7
2012-13	1,282,465,162	0	35,122,598	1,317,587,760	0.9
2013-14	1,291,237,442	0	36,342,044	1,327,579,486	0.8
2014-15	1,306,781,337	0	36,041,331	1,342,822,668	1.1
2015-16	1,340,008,762	0	33,318,122	1,373,326,884	2.3
2016-17	1,398,016,563	0	42,132,254	1,440,148,817	4.9
2017-18	1,456,123,020	0	44,157,196	1,500,280,216	4.2
2018-19	1,517,206,095	0	52,449,930	1,569,656,025	4.6

Source: California Municipal Statistics, Inc.

Factors Relating to Increases/Decreases in Assessed Value. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts.

In addition, wildfires have occurred in recent years in different regions of the State, and related flooding and mudslides have also occurred. Although the recent natural disasters do not include territory within the District’s boundaries, the District cannot predict or make any representations regarding the effects that wildfires, flooding, mudslides or any other natural disasters and related conditions have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have had on economic activity in the District or throughout the State.

Assessed Valuation by Jurisdiction. The following table shows the assessed valuation by jurisdiction in the District.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Assessed Valuation by Jurisdiction
Fiscal Year 2018-19

<u>Jurisdiction:</u>	<u>Assessed Valuation in School District</u>	<u>% of School District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in School District</u>
Unincorporated Humboldt County	\$1,569,656,025	100.00%	\$8,078,103,112	19.43%
Total District	\$1,569,656,025	100.00%		
Humboldt County	\$1,569,656,025	100.00%	\$13,478,284,070	11.65%

Source: California Municipal Statistics, Inc.

Parcels by Land Use. The following table shows a breakdown of local secured property assessed value and parcels within the District by land use for fiscal year 2018-19.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2018-19

	2018-19 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural/Timber	\$ 16,604,305	1.09%	264	4.18%
Commercial	143,885,827	9.48	137	2.17
Vacant Commercial	12,359,618	0.81	53	0.84
Industrial	656,272	0.04	1	0.02
Vacant Industrial	5,923	0.00	1	0.02
Government/Social/Institutional	<u>625,667</u>	<u>0.04</u>	<u>19</u>	<u>0.30</u>
Subtotal Non-Residential	\$174,137,612	11.48%	475	7.52%
Residential:				
Single Family Residence	\$1,011,517,408	66.675	4,089	64.70%
Rural Residential	80,388,555	5.30	235	3.72
Mobile Home	37,960,523	2.50	619	9.79
Mobile Home Park	16,333,227	1.08	13	0.21
2-4 Residential Units	136,051,105	8.97	483	7.64
5+ Residential Units/Apartments	34,442,154	2.27	46	0.73
Vacant Residential	<u>26,375,511</u>	<u>1.74</u>	<u>360</u>	<u>5.70</u>
Subtotal Residential	\$1,343,068,483	88.52%	5,845	92.48%
Total	\$1,517,206,095	100.00%	6,320	100.00%

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

Per Parcel Assessed Valuation of Single-Family Homes. The table below shows the per parcel assessed valuation of single-family homes in the District for fiscal year 2018-19, including the median and average assessed value per parcel.

**MCKINLEYVILLE UNION SCHOOL DISTRICT
Per Parcel Assessed Valuation of Single-Family Homes
Fiscal Year 2018-19**

	<u>No. of Parcels</u>	<u>2018-19 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential	4,089	\$1,011,517,408	\$247,375	\$238,823

<u>2018-19 Assessed Valuation</u>	<u>No. of Parcels ⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$24,999	19	0.465%	0.465%	\$ 332,457	0.033%	0.033%
\$25,000 - \$49,999	74	1.810	2.274	3,000,584	0.297	0.330
\$50,000 - \$74,999	166	4.060	6.334	10,316,666	1.020	1.349
\$75,000 - \$99,999	182	4.451	10.785	16,359,364	1.617	2.967
\$100,000 - \$124,999	213	5.209	15.994	23,914,674	2.364	5.331
\$125,000 - \$149,999	251	6.138	22.133	34,666,872	3.427	8.758
\$150,000 - \$174,999	336	8.217	30.350	54,627,345	5.401	14.159
\$175,000 - \$199,999	325	7.948	38.298	60,506,860	5.982	20.141
\$200,000 - \$224,999	293	7.166	45.463	62,234,145	6.153	26.293
\$225,000 - \$249,999	347	8.486	53.950	82,472,686	8.153	34.446
\$250,000 - \$274,999	389	9.513	63.463	102,248,832	10.108	44.555
\$275,000 - \$299,999	374	9.146	72.609	107,219,803	10.600	55.155
\$300,000 - \$324,999	284	6.945	79.555	88,625,061	8.762	63.916
\$325,000 - \$349,999	187	4.573	84.128	62,944,242	6.223	70.139
\$350,000 - \$374,999	144	3.522	87.650	52,113,321	5.152	75.291
\$375,000 - \$399,999	90	2.201	89.851	34,685,172	3.429	78.720
\$400,000 - \$424,999	75	1.834	91.685	30,786,805	3.044	81.764
\$425,000 - \$449,999	53	1.296	92.981	23,126,459	2.286	84.050
\$450,000 - \$474,999	58	1.418	94.400	26,737,045	2.643	86.693
\$475,000 - \$499,999	44	1.076	95.476	21,374,390	2.113	88.806
\$500,000 and greater	<u>185</u>	<u>4.524</u>	100.000	<u>113,224,625</u>	<u>11.194</u>	100.000
Total	4,089	100.000%		\$1,011,517,408	100.000%	

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

Reassessments and Appeals of Assessed Value

There are general means by which assessed values can be reassessed or appealed that could adversely impact property tax revenues within the District.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” in APPENDIX A.

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the 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. These reductions are subject to yearly reappraisals and are adjusted back to their original values, adjusted for inflation, when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

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.

Proposition 8 reductions may also be unilaterally applied by the County Assessor. The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers or by reductions initiated by the County Assessor. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Refunding Bonds to increase accordingly, so that the fixed debt service on the Refunding Bonds (and other outstanding general obligation bonds, if any) may be paid.

Typical Tax Rates

Below are historical typical tax rates in a tax rate area within the District in recent years.

**MCKINLEYVILLE UNION SCHOOL DISTRICT
 Typical Tax Rates as Percent of Assessed Valuation
 (Tax Rate Area 115-2 2018-19 Assessed Valuation: \$1,543,185,838
 Fiscal Years 2014-15 through 2018-19**

	<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
Northern Humboldt Union High School District	.0170	.0170	.0240	.0240	.0230
Redwoods Joint Community College District	.0130	.0100	.0080	.0080	.0080
McKinleyville Union School District Bond	.0320	.0310	.0320	.0310	.0400
Total	\$1.0620	\$1.0580	\$1.0640	\$1.0630	\$1.0710

Source: California Municipal Statistics, Inc.

Tax Levies and Delinquencies

For the District's share of the 1% general fund apportionment, the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in the State Revenue and Taxation Code, which requires the County to pay 100% of such secured property taxes due to local agencies in the fiscal year such taxes are due. Pursuant to these provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies, assuming that certain conditions are met.

Because of this method of tax collection, the K-12 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their secured tax levies for the 1% general fund apportionment if the conditions established under the applicable county's Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due to delinquent payments. This method of tax collection and distribution is subject to future discontinuance at the County's option or if demanded by the participating taxing agencies.

Because the County does not participate in the Teeter Plan with respect to tax levies for general obligation bonds debt service, secured property taxes actually collected for such purpose are allocated to political subdivisions for which the County acts as tax-levying or tax-collecting agency, including the District, when such secured property taxes are actually collected. As a consequence, the District's receipt of taxes levied for its general obligation bonds, including the Refunding Bonds, is subject to delinquencies.

The following table identifies recent secured tax charges and delinquencies in the County with respect to the one percent general fund apportionment.

**HUMBOLDT COUNTY
Secured Tax Charges and Delinquencies
Fiscal Years 2013-14 through 2017-18**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	% Delinquent June 30
2013-14	\$127,250,441	\$4,124,912	3.24%
2014-15	129,757,201	3,804,788	2.93
2015-16	137,064,804	3,744,223	2.73
2016-17	141,631,142	3,801,533	2.68
2017-18	147,595,318	4,204,397	2.85

(1) All property taxes collected by the County. .
Source: California Municipal Statistics, Inc.

Largest Property Owners

The 20 taxpayers in the District with the greatest combined assessed valuation of taxable property on the fiscal year 2018-19 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) which is owned by a single taxpayer, the greater the amount of tax collections that are exposed to weaknesses in the taxpayer’s financial situation and ability or willingness to pay property taxes. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records 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.

**MCKINLEYVILLE UNION SCHOOL DISTRICT
Top 20 Secured Property Taxpayers
Fiscal Year 2018-19**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2018-19 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
1.	Timber Ridge at McKinleyville LLC	Assisted Living Facility	\$ 14,066,348	0.93%
2.	Sun Ocean West LLC	Mobile Home Park	9,651,780	0.64
3.	Reneson Hotels Inc.	Hotel/Motel	9,630,178	0.63
4.	Azalea Gardens Apartments LP	Apartments	9,385,063	0.62
5.	L & A Enterprises LLC	Commercial Store	8,141,478	0.54
6.	Coast Central Credit Union	Financial Building	7,294,028	0.48
7.	Archee L. & John A. Pettlon	Rural Residential	6,287,852	0.41
8.	Stephen A. Moser Trust	Office Building	5,955,976	0.39
9.	BDC Crestline LP	Commercial Store	5,195,701	0.34
10.	Seritage Growth Properties LP	Commercial Store	5,097,960	0.34
11.	Ronald J. Harris Trust	Mini-Warehouse	5,062,482	0.33
12.	J.L. Furtado Inc.	Apartments	4,444,911	0.29
13.	Michael & Sheril Jones Trust	Office Building	4,350,324	0.29
14.	GSA Eureka Skyline 26 Partners LLC	Commercial	4,341,422	0.29
15.	Murray Storage LP	Mini-Warehouse	4,272,246	0.28
16.	Safecare LLC Co.	Office Building	4,161,600	0.27
17.	D. & R. Miller Family LLC	Commercial Store	3,457,075	0.23
18.	Paul V. Peebles Jr. Trust	Residential	3,394,927	0.22
19.	Domingo & Mary L. Santos	Residential	3,387,311	0.22
20.	Cobblestone Apartments 1 LLC	Apartments	<u>3,181,221</u>	<u>0.21</u>
			<u>\$120,759,883</u>	<u>7.96%</u>

(1) 2018-19 local secured assessed valuation: \$1,517,206,095.
Source: California Municipal Statistics, Inc.

Debt Obligations

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. with respect to debt dated as August 2, 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.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of August 2, 2019

2018-19 Assessed Valuation: \$1,569,656,025

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 8/2/19</u>
Redwoods Joint Community College District	8.332%	\$ 2,124,243
Northern Humboldt Union High School District	33.665	10,188,787
McKinleyville Union School District	100.000	17,014,807⁽¹⁾
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$29,327,837
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Humboldt County Certificates of Participation	11.646%	\$1,081,331
Humboldt County Office of Education Certificates of Participation	11.646	338,899
McKinleyville Community Services District General Fund Obligations	98.744	<u>1,094,672</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$2,514,902
COMBINED TOTAL DEBT		\$31,842,739 ⁽²⁾

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$17,014,807)	1.08%
Total Direct and Overlapping Tax and Assessment Debt.....	1.87%
Combined Total Debt.....	2.03%

(1) Includes the Refunded Bonds, but excludes the Refunding Bonds offered for sale hereunder.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

BOND INSURANCE

The District has applied for bond insurance to guarantee the scheduled payment of principal of and interest on the Refunding Bonds and, if a commitment is issued to insure the Refunding Bonds, will determine prior to the sale of the Refunding Bonds whether to obtain such insurance.

TAX MATTERS

Tax Exemption

The interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation, Bond Counsel, San Francisco, California, interest on the Refunding Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the Refunding Bonds, which is to be delivered on the date of issuance of the Refunding Bonds, is set forth in APPENDIX D.

Owners of the Refunding Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Refunding Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Refunding Bonds other than as expressly described above.

A copy of the proposed form of opinion of Bond Counsel is attached as APPENDIX D to this Official Statement.

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the Refunding Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to (a) the sufficiency of the anticipated amount of proceeds of the Refunding Bonds and other funds available to pay upon prior redemption, interest and redemption premium requirements of the Refunded Bonds described under the heading "THE REFINANCING PLAN" and (b) the "yields" on the amount of proceeds held and invested prior to redemption of the Refunded Bonds and on the Refunding Bonds considered by Bond Counsel in connection with the opinion rendered by Bond Counsel that the Refunding Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

CONTINUING DISCLOSURE

The District will execute the Continuing Disclosure Certificate in connection with the issuance of the Refunding Bonds, and covenant therein, for the benefit of holders and beneficial owners of the Refunding Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an “**Annual Report**”) not later than nine months after the end of the District’s fiscal year (which currently is June 30), commencing March 31, 2020 with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in the form of Continuing Disclosure Certificate attached as APPENDIX E. These covenants have been made in order to assist the Underwriter of the Refunding Bonds in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the “**Rule**”).

The District has existing undertakings pursuant to the Rule in connection with the delivery of prior general obligation bonds. See APPENDIX A under the heading “DISTRICT FINANCIAL INFORMATION - Long-Term Indebtedness.”

During the past five years, the District failed to timely file its fiscal year 2013-14 Annual Report. The District has engaged Isom Advisors, a Division of Urban Futures, Inc., its financial advisor, to serve as dissemination agent with respect to each such of its continuing disclosure undertakings, including the undertaking to be entered into for the Refunding Bonds.

Neither the County nor any other entity other than the District has any obligation or will incur any liability whatsoever with respect to the performance of the District’s duties regarding continuing disclosure.

CERTAIN LEGAL MATTERS

No litigation is pending or threatened concerning the validity of the Refunding Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Refunding Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District’s ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District’s ability to issue and retire the Refunding Bonds.

The District may be or may become a party to lawsuits and claims which are unrelated to the Refunding Bonds or actions taken with respect to the Refunding Bonds and which have arisen in the normal course of operating the District. The District maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. In the opinion of the District, there currently are no claims or actions pending which could have a material adverse effect on the financial position or operations of the District. The District cannot predict what types of claims may arise in the future.

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**"), has assigned a rating of "A+" to the Refunding Bonds. The District has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement to the extent deemed not material for investment purposes). Such rating reflects only the view of S&P and an explanation of the significance of such rating and outlook may be obtained only from S&P. There is no assurance that any credit rating given to the Refunding Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Refunding Bonds.

UNDERWRITING

The Refunding Bonds are being sold to Raymond James & Associates, Inc. (the "**Underwriter**"), pursuant to a bond purchase agreement for the Refunding Bonds. The Underwriter has agreed to purchase the Refunding Bonds at a price of \$_____, representing the principal amount of the Refunding Bonds, plus original issue premium of \$_____ and less Underwriter's discount of \$_____. The Underwriter may offer and sell Refunding Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed by the Underwriter.

ADDITIONAL INFORMATION

References in this Official Statement to the Bond Resolution, the Escrow Agreement and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available from the Underwriter and following delivery of the Refunding Bonds will be on file at the offices of the Paying Agent.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available from upon written request to the District.

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

EXECUTION

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

By: _____
Superintendent

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APPENDIX A

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Refunding Bonds is payable from the general fund of the District. The Refunding Bonds are payable by the District solely from the proceeds of an ad valorem property tax required to be levied by the County on taxable property within the District in an amount sufficient for the payment thereof. See "SECURITY FOR THE REFUNDING BONDS" herein.

GENERAL DISTRICT INFORMATION

General Information

The District is situated on the coast of California, about 80 miles south of the Oregon border. The District is located between the Pacific Ocean to the west, and the coastal mountain ranges to the east approximately 4 miles from Arcata and Humboldt State University, 11 miles from Eureka (the county seat) and 275 miles from San Francisco. The District provides services to the community of McKinleyville. The District operates two elementary schools and one middle school, with enrollment for the 2019-20 school year projected to be approximately 1,134 students.

Administration

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

<u>Name</u>	<u>Office</u>
Nicholas Som	President
Alvin Sager	Clerk
Sara Alto	Trustee
Amber Flowers	Trustee
Tracy Helard-Shumard	Trustee

Administration. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Heidi Moore-Guynup currently serves as the Superintendent of the District and Jeff Brock serves as the Chief Business Official.

Recent Enrollment Trends

The following table shows recent enrollment history for the District with budgeted figures for fiscal year 2019-20.

**ANNUAL ENROLLMENT
Fiscal Years 2009-10 through 2019-20
McKinleyville Union School District**

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Annual Percent Change</u>
2009-10	1,165	--%
2010-11	1,140	(2.1)
2011-12	1,133	(0.6)
2012-13	1,145	1.1
2013-14	1,179	3.0
2014-15	1,141	(3.2)
2015-16	1,156	1.3
2016-17	1,151	(0.4)
2017-18	1,166	1.3
2018-19	1,123	(3.7)
2019-20*	1,134	1.0

*Budgeted.
Source: California Department of Education for 2009-10 through 2018-19.
McKinleyville Union School District for 2019-20.

Employee Relations

The District has 68.8 certificated full-time equivalent (“FTE”) employees, 55.4 classified FTE employees, and 16.1 management/supervisor/confidential FTE employees.

The certificated and classified employees of the District are represented by two bargaining units, as set forth in the following table.

**BARGAINING UNITS
McKinleyville Union School District**

<u>Employee Group</u>	<u>Representation</u>	<u>Contract Expiration Date</u>
Certificated	McKinleyville Teachers Association	June 30, 2020
Classified	California School Employees Association	June 30, 2020

Source: McKinleyville Union School District.

DISTRICT FINANCIAL INFORMATION

The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Refunding Bonds is payable from the general fund of the District. The Refunding Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

Education Funding Generally

School districts in California receive operating income primarily from two sources: the State funded portion which is derived from the State's general fund, and a locally funded portion, being the district's share of the one percent general *ad valorem* tax levy authorized by the California Constitution. As a result, decreases or deferrals in education funding by the State could significantly affect a school district's revenues and operations.

From 1973-74 to 2012-13, California school districts operated under general purpose revenue limits established by the State Legislature. In general, revenue limits were calculated for each school district by multiplying (1) the average daily attendance ("**ADA**") for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations were adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. Funding of the District's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the District's revenue limit and its local property tax revenues. Districts that had local property tax revenues that exceeded their revenue limit entitlement were deemed "Basic Aid Districts" and received full funding from local property tax revenues, and were entitled to keep those tax revenues that exceeded their revenue limit funding entitlement. Basic Aid Districts are now known as "Community Supported Districts."

The fiscal year 2013-14 State budget replaced the previous K-12 finance system with a new formula known as the Local Control Funding Formula (the "**LCFF**"). Under the LCFF, revenue limits and most state categorical programs were eliminated. School districts instead receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. The LCFF creates funding targets based on student characteristics. For school districts and charter schools, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, 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 grades K-3 and the provision of career technical education in grades 9-12.
- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

The LCFF was implemented for fiscal year 2013-14 and has been phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget (based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**")), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, 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.

Funding levels used in the LCFF target entitlement calculations, not including any supplemental or concentration grant funding entitlements, for fiscal year 2018-19 are set forth in the following table. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

Funding levels used in the LCFF "Target Entitlement" calculations for fiscal year 2018-19 are set forth in the following table.

**Fiscal Year 2018-19 Base Grant* Under LCFF by Grade Span
(Targeted Entitlement)**

Grade Span	2018-19 Base Grant Per ADA	2018-19 COLA (3.70%)	Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)	2018-19 Base Grant/Adjusted Base Grant Per ADA
K-3	\$7,193	\$266	\$776	\$8,235
4-6	7,301	270	n/a	7,571
7-8	7,518	278	n/a	7,796
9-12	8,712	322	235	9,269

*Does not include supplemental and concentration grant funding entitlements.
Source: California Department of Education.

The LCFF legislation included a "hold harmless" provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its 2012-13 level, unadjusted for changes in ADA or cost of living adjustments.

The LCFF includes an accountability component. Districts are required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. All school districts, county offices of education, and charter schools are required to develop and adopt local control and accountability plans, which identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate.

County superintendents review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction performs a corresponding role for county offices of education. In addition, the budget for fiscal year 2013-14 created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

District Accounting Practices

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

District accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see Note 1 of APPENDIX B to the Official Statement.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting, (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2018 Audited Financial Statements were prepared by Maye, Abrahamsen & Barsanti, McKinleyville, California and are attached to the Official Statement as APPENDIX B. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the District Office, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, California; Telephone (707) 839-1549. The District has not requested, and the auditor has not provided, any review or update of such financial statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the general fund for the District for the fiscal years 2013-14 through 2017-18.

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2013-14 through 2017-18 (Audited)
McKinleyville Union School District

<u>Revenues</u>	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17	Audited 2017-18
LCFF Sources	\$7,143,441	\$7,851,015	\$8,569,836	\$9,026,638	\$9,290,746
Federal Revenues	506,191	636,640	626,196	607,455	568,787
Other State Revenues	454,109	490,373	1,233,067	885,711	1,347,791
Other Local Revenues	661,196	933,888	887,599	752,061	831,198
Total Revenues	8,764,937	9,912,720	11,316,698	11,271,865	12,038,522
<u>Expenditures</u>					
Instruction	5,813,541	6,690,829	6,925,161	7,203,569	7,898,903
Instruction-Related Activities:					
Supervision of Instruction	47,853	76,357	220,354	212,705	219,124
Instructional Library, Media, Tech	136,176	155,769	163,760	164,162	209,053
School Site Administration	595,714	707,076	801,148	883,145	856,204
Pupil Services:					
Home-to-School Transport	250,065	238,311	306,627	334,171	351,077
Food Services	--	--	377	379	1,132
All Other Pupil Services	282,585	285,349	343,205	430,385	434,637
General Administration:					
Data Proc.	19,651	27,097	34,454	28,395	28,539
All Other General Administration	630,505	639,400	671,367	684,788	721,005
Plant Services	633,455	703,690	686,628	728,238	729,959
Facility Acquisition and Maintenance	--	--	15,373	42,818	303,599
Ancillary Services	101,228	105,387	99,476	102,528	116,108
Community Services	2,615	3,436	3,933	4,454	3,452
Other Outgo-Transfer to Other Agencies	--	482,172	511,698	658,034	540,699
Debt Service: Principal	--	--	--	--	--
Debt Service: Interest	--	--	--	--	--
Total Expenditures	8,878,246	10,114,877	10,783,615	11,477,771	12,413,491
Excess of Revenues Over/(Under) Expenditures	(113,309)	(202,157)	533,083	(205,906)	(374,969)
<u>Other Financing Sources (Uses)</u>					
Operating Transfers in	--	--	--	--	-
Other Sources	--	--	--	--	--
Operating Transfers out	--	(1,177)	(2,504)	(4,574)	(5,879)
Total Other Financing Sources (Uses)	--	(1,177)	(2,504)	(4,574)	(5,879)
Net Change in Fund Balance	(113,309)	(203,334)	530,579	(210,480)	(380,848)
Fund Balance, July 1	2,370,197	2,256,888	2,053,554	2,584,133	2,373,653
Fund Balance, June 30	\$2,256,888	\$2,053,554	\$2,584,133	\$2,373,653	\$1,992,805

Source: McKinleyville Union School District.

District Budget and Interim Financial Reporting

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

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the Humboldt County Superintendent of Schools (the "**County Superintendent**"), who is not an officer of the County.

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

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

A State law adopted in 1991 ("**A.B. 1200**") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments.

Interim Certifications Regarding Ability to Meet Financial Obligations. Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education, which is not a department of the County, 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 the following types of certifications:

- **Positive certification** - the school district that will meet its financial obligations for the current fiscal year and the subsequent two fiscal years.
- **Negative certification** - the school district will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year.
- **Qualified certification** - the school district may not meet its financial obligations for the current fiscal year or the subsequent two fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

District's Budget Approval/Disapproval and Certification History. In the past five years, each of the District's interim reports have been certified as positive, and each of its adopted budgets have been approved.

District's General Fund. The following table shows the general fund figures for the District for fiscal year 2018-19 (estimated actuals) and 2019-20 (adopted budget).

**GENERAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE ⁽¹⁾
Fiscal Year 2018-19 (Estimated Actuals)
Fiscal Year 2019-20 (Adopted Budget)
McKinleyville Union School District**

	Estimated Actuals 2018-19	Adopted Budget 2019-20
<u>Revenues</u>		
LCFF Sources	\$10,125,577	\$10,409,003
Federal Revenues	1,085,987	1,057,749
Other State Revenues	1,012,077	661,990
Other Local Revenues	906,682	810,507
Total Revenues	13,130,323	12,939,249
<u>Expenditures</u>		
Certificated Salaries	4,799,846	5,098,080
Classified Salaries	2,120,741	2,192,326
Employee Benefits	3,198,013	3,461,807
Books and Supplies	541,084	659,353
Services & Operating Exp.	1,762,759	1,072,977
Capital Outlay	--	--
Other Outgo (Excluding Indirect Costs)	606,774	657,096
Direct Support/Indirect Costs	(27,649)	(27,649)
Total Expenditures	13,001,568	13,113,990
Excess of Revenues Over/(Under) Expenditures	128,755	(174,741)
<u>Other Financing Sources (Uses)</u>		
Operating Transfers in	92,205	87,087
Operating Transfers out	(92,205)	(87,087)
Other Sources (Uses)	--	--
Total Other Financing Sources (Uses)	--	--
Net Change in Fund Balance	128,755	(174,741)
Fund Balance, July 1	410,794	539,548
Fund Balance, June 30	\$539,548	\$364,807

(1) Budget and interim fund balances shown do not include certain funds included in the District's audited financial statements.

Source: McKinleyville Union School District.

District Reserves. The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District maintains an unrestricted reserve that meets or exceeds the State's minimum requirements.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget ("**SB 858**"), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision, which became effective upon the passage of Proposition 2 at the November 4, 2014 statewide election, which limits the amount of reserves which may be maintained at the District level. Specifically, the legislation, among other things, enacted Education Code Section 42127.01, which became operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the State's Public School System Stabilization Account (the Proposition 98 reserve), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of three times the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA under 400,000, the limit is two times the amount). Exemptions can be granted by the County Superintendent under certain circumstances.

On October 11, 2017, the Governor signed new legislation ("**SB 751**") amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with ADA of 2,500 or less are exempt from the reserve cap. The District cannot predict if or when the reserve cap enacted by SB 751 will be triggered and what impact it may have on the District's reserves.

Funding Trends - ADA and LCFF Funding

As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target.

Community Supported Districts (formerly known as Basic Aid Districts) are those whose local property tax revenues exceed the funding entitlement under the LCFF. Community Supported Districts do not receive any funds from the State appropriation, however, they do receive funds from the State for categorical and grant programs restricted to a special population or for certain purposes such as disabled students or instructional equipment. The current law in California allows these districts to keep the excess property tax revenues without penalty. The implication for Community Supported Districts is that the legislatively determined annual cost of living adjustment and other politically determined factors are less significant in determining such districts' primary funding sources. Rather, property tax growth and the local economy become the determinant factors. The District is not a Community Supported District.

Funding Trends Under LCFF. The following table sets forth total LCFF funding for the District for fiscal year 2013-14 through 2019-20 (budgeted), together with annual ADA.

**AVERAGE DAILY ATTENDANCE AND FUNDING
Fiscal Years 2013-14 through 2019-20
McKinleyville Union School District**

Fiscal Year	ADA	LCFF Funding Per ADA
2013-14	1,113	\$6,419
2014-15	1,074	7,310
2015-16	1,082	7,924
2016-17	1,086	8,313
2017-18	1,085	8,565
2018-19 ⁽¹⁾	1,088	9,307
2019-20 ⁽²⁾	1,070	9,728

(1) Estimated Actuals.

(2) Budgeted.

Source: California Department of Education; McKinleyville Union School District.

Under LCFF, school districts are entitled to supplemental and concentration grant funding based on the unduplicated count of targeted students. The District’s percentage of unduplicated students is approximately 56% for the purposes of calculation supplemental and concentration grant funding.

Revenue Sources

The District categorizes its general fund revenues into four sources, being LCFF, Federal Revenues, Other State Revenues and Local Revenues. Each of these revenue sources is described below.

LCFF Sources. District funding is provided by a mix of (1) local property taxes and (2) State apportionments of funding under the LCFF. Generally, the State apportionments will amount to the difference between the District’s LCFF funding entitlement and its local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The principal component of local revenues is the school district’s property tax revenues, i.e., the district’s share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238.03(c) itemizes the local revenues that are subtracted from the base entitlement to determine the amount of the State apportionment of funding. Historically, the more local property taxes a district received, the less State equalization aid it was entitled to.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Every Student Succeeds

Act, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools and others.

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's funding entitlement under the LCFF and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues.

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

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

District Retirement Systems

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**"). Both STRS and PERS are operated on a Statewide basis. *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 or the Underwriter.*

Implementation of GASB Nos. 68 and 71. Commencing with fiscal year ended June 30, 2015, the District implemented the provisions of GASB Statement Nos. 68 and 71 which require certain new pension disclosures in the notes to its audited financial statements commencing with the audit for fiscal year 2014-15. Statement No. 68 generally requires the District to recognize its proportionate share of the unfunded pension obligation for STRS and PERS by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. As a result of the implementation of GASB Statement Nos. 68 and 71, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014. See APPENDIX B for additional information.

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended. The program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers and the State. The District's employer contributions to STRS for recent fiscal years, and the budgeted contribution for fiscal year 2019-20 are set forth in the following table.

**STRS Contributions
McKinleyville Union School District
Fiscal Years 2013-14 through 2019-20 (Projected)**

Fiscal Year	Amount
2013-14	\$290,566
2014-15	354,698
2015-16	515,002
2016-17	596,437
2017-18	688,261
2018-19 ⁽¹⁾	1,155,847
2019-20 ⁽²⁾	1,274,966

(1) Estimated Actuals.

(2) Budgeted.

Source: McKinleyville Union School District.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$107.2 billion as of June 30, 2018 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

The District's employer contribution rates for fiscal years 2015-16, 2016-17, 2017-18, and 2018-19 were 10.73%, 12.58%, 14.43% and 16.28% respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2019-20 through fiscal year 2022-23 are set forth in the following table.

**EMPLOYER CONTRIBUTION RATES (STRS)
Fiscal Years 2019-20 through 2022-23**

Fiscal Year	Employer Contribution Rate ⁽¹⁾
2019-20	17.10%
2020-21	18.40
2021-22 ⁽²⁾	18.60
2022-23 ⁽²⁾	18.10

(1) Expressed as a percentage of covered payroll.

(2) The employer contribution rate is projected to decrease in fiscal years 2021-22 and 2022-23. Projections may change based on actual experience.

Source: AB 1469

Based upon the recommendation from its actuary, for Fiscal Year 2021-2022 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "**STRS Board**"), is required to increase or decrease the employer contribution rate to reflect the contribution required to eliminate the remaining unfunded actuarial obligation with respect to service credited to members of the STRS plan before July 1, 2014 (the "**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 employees' contributions to the STRS plan are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, A.B. 1469 also requires the STRS Board to report to the State legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS plan 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 employers and the State in order to eliminate the 2014 Liability.

On February 14, 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 revised actuarial assumptions include (i) decreasing the investment rate of return to 7.25% and then to 7.00%, for the June 30, 2016 and June 30, 2017 actuarial valuations, respectively, (ii) decreasing projected wage growth to 3.50% (from 3.75%), and (iii) decreasing the inflation factor to 2.75% (from 3.00%).

The State also contributes to STRS, currently in an amount equal to 7.328% of teacher payroll in Fiscal Year 2018-2019. Based upon the recommendation from its actuary, starting for fiscal year 2017-2018 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, 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. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of a cost-sharing pool within PERS known as the "Schools Pool." Benefit provisions are established by State statutes, as legislatively amended. Contributions to PERS are made by employers and employees. Each fiscal year, the District is required to contribute an amount based on an actuarially determined employer rate. The District's employer contributions to PERS for recent fiscal years, and the budgeted contribution for fiscal year 2019-20, are set forth in the following table.

**PERS Contributions
McKinleyville Union School District
Fiscal Years 2013-14 through 2019-20 (Budgeted)**

Fiscal Year	Amount
2013-14	\$140,221
2014-15	155,939
2015-16	187,924
2016-17	238,924
2017-18	305,007
2018-19 ⁽¹⁾	343,067
2019-20 ⁽²⁾	411,945

(1) Estimated Actuals.

(2) Budgeted.

Source: McKinleyville Union School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$27.2 billion as of June 30, 2018 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

**PERS Discount Rate
Fiscal Years 2018-19 through 2020-21**

Fiscal Year	Amount
2018-19	7.375%
2019-20	7.250
2020-21	7.000

Source: PERS.

The new rates and underlying assumptions, which are aimed at eliminating the unfunded liability of PERS in approximately 30 years, were implemented for school districts beginning in fiscal year 2016-17, with the costs spread over 20 years and the increases phased in over the first five years.

The District's employer contribution rates for fiscal years 2015-16, 2016-17, 2017-18, and 2018-19 were 11.847%, 13.888%, 15.531%, and 18.062% respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2019-20 through fiscal year 2022-23 are set forth in the following table.

EMPLOYER CONTRIBUTION RATES (PERS)
Fiscal Years 2019-20 through 2022-23⁽¹⁾

Fiscal Year	Employer Contribution Rate ⁽²⁾
2019-20	19.721%
2020-21	22.900
2021-22	24.600
2022-23	25.300

(1) The PERS board is expected to approve official employer contribution rates for each fiscal year shown during the immediately preceding fiscal year.

(2) Expressed as a percentage of covered payroll.

Source: PERS

On February 13, 2018, the Board of Administration of PERS voted to shorten the period over which PERS will amortize actuarial gains and losses from 30 years to 20 years for new pension liabilities, effective for the June 30, 2019 actuarial valuations. Amortization payments for all unfunded accrued liability bases will be computed to remain a level dollar amount throughout the amortization period, and certain 5-year ramp-up and ramp-down periods will be eliminated. As a result of the shorter amortization period, the contributions required to be made by employers may increase beginning in fiscal year 2020-21.

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 (“PEPRA”), which impacted various aspects of public retirement systems in the State, including the STRS and PERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public retirement systems in the State. PEPRA applies to all public employee retirement systems in the State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRA’s provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

PERS has predicted that the impact of PEPRA on employees and employers, including the District and other employers in the PERS system, will vary, based on each employer’s current level of benefits. As a result of the implementation of PEPRA, new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn.

With respect to the STRS pension program, employees hired after January 1, 2013 will pay the greater of either (1) fifty percent of the normal cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by then-current members (i.e.,

employees in the STRS plan as of January 1, 2013). The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Employers will pay at least the normal cost rate, after subtracting the member's contribution.

The District is unable to predict the amount of future contributions it will have to make to PERS and STRS as a result of the implementation of PEPRA, and as a result of negotiations with its employee associations, or, notwithstanding the adoption of PEPRA, resulting from any legislative changes regarding the PERS and STRS employer contributions that may be adopted in the future.

Additional Information. Additional information regarding the District's retirement programs is available in Note 13 to the District's audited financial statements attached to this Official Statement as APPENDIX B. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter*

Post-Employment Retirement Benefits

Plan Description. The District's governing board administers the Post-Employment Benefits Plan (the "Plan"). The Plan is a single employer defined benefit plan that is used to provide post-employment benefits other than pensions ("OPEB") for eligible retirees and their spouses. Membership of the Plan consists of 12 retirees and beneficiaries currently receiving benefits and 90 active plan members.

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

Contributions. The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Teachers Education Association ("TEA"), the local California Service Employees Association ("CSEA"), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$149,051 in benefits.

Actuarial Assumptions and Other Inputs. The District's total OPEB liability of \$1,180,925 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified: inflation 2.75%, salary increases 2.75%, investment rate of return 3.8%, net of OPEB plan investment expense, including inflation, and healthcare cost trend rates 4.00% for 2017. The discount rate was based on the Bond Buyer 20-Bond General Obligation Index. Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated

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

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

Changes in OPEB Liability of the District. The changes in OPEB liability of the District as of June 30, 2018, is shown in the following table:

**CHANGES IN TOTAL OPEB LIABILITY
McKinleyville Union School District**

	Total OPEB Liability
Balance at June 30, 2017	\$1,114,260
Service Cost	113,181
Interest	42,737
Employer Contributions	<u>(89,253)</u>
Net changes	
Balance at June 30, 2018	\$1,180,925

Source: McKinleyville Union School District Audit Report.

OPEB Expense. For the year ended June 30, 2018, the District recognized an OPEB expense of \$66,665.

For more information regarding the District’s OPEB and assumptions used in its most recent actuarial study, see Note 11 of Appendix B to the Official Statement.

Long-Term Indebtedness

General Obligation Bonds. The table below summarizes the outstanding general obligation bonds of the District, payable from *ad valorem* taxes, as of August 2, 2019, rounded to the nearest dollar.

**General Obligation Indebtedness
McKinleyville Union School District**

Series	Issue Date	Final Maturity	Original Principal	Principal Outstanding August 2, 2019 ⁽¹⁾
Election of 2008, Series A	3/17/2009	8/1/2033	\$7,000,000.00	\$245,000.00
Election of 2008, Series B ⁽²⁾	3/2/2011	8/1/2050	6,999,907.50	3,322,376.10
2014 Refunding Bonds ⁽³⁾	10/2/2014	8/1/2047	7,327,431.25	7,327,422.71
2015 Refunding Bonds	6/25/2015	8/1/2032	6,630,000.00	6,120,000.00
TOTAL			\$27,957,338.75	\$17,014,798.81

(1) Principal or denominational amount, not including accreted interest on capital appreciation bonds.
(2) Expected to be refunded, in part, with the proceeds of the Refunding Bonds described herein.
(3) Expected to be refunded, in whole, with the proceeds of the Refunding Bonds described herein.

Risk Management – Joint Ventures

The District is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The District manages those risks of loss through participation in public entity risk pools. There have been no significant reductions in insurance coverage from the prior year. For each of the past three years settlements did not exceed insurance coverage.

The District participants in two joint ventures under a joint powers agreement (“**JPA**”) with the North Coast School Insurance Group. The relationship between the District and the JPA is such that the JPA is not a component unit of the McKinleyville Union School District for financial reporting purposes.

Each member district pays a premium commensurate with the level of coverage requested. The District is covered under workers' compensation, liability, medical, vision, and dental insurance.

See Note 8 in the audited financial statements attached to the Official Statement as APPENDIX B.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq.*, the Humboldt County Treasurer-Tax Collector (the “**Treasurer**”) manages funds deposited with it by the District. Humboldt County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts generally receive the majority of their operating revenues from various State sources. The primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes (see “—Funding of Education Generally” above). State funds typically make up the majority of a district’s LCFF funding. School districts also receive funding from the State for some specialized programs such as special education.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” herein), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding.

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. School districts in California receive operating income primarily from two sources: (1) the State funded portion which is derived from the State's general fund, and (2) a locally funded portion, being a district's share of the 1% general *ad valorem* tax levy authorized by the California Constitution (see "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" above). School districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. None of the District, the Underwriter or the County is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

The Budget Process. The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "**Governor's Budget**"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each house of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets

Certain information about the State budgeting process and the State budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Finance" and sub-heading "-Public Finance Division", (1) posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, and (2) also posts various financial documents for the State under the "-Financial Information" link.
- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the headings "The Budget" and "State Budget Condition."

Prior Years' Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools, until a later date in the fiscal year, or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, among others, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2018-19 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

2013-14 State Budget: Significant Change in Education Funding. As described previously herein, the 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State's system of K-12 education finance with the enactment of the LCFF. Significant reforms such as the LCFF and other changes in law may have significant impacts on the District's finances.

2019-20 State Budget

On June 27, 2019, the Governor signed the 2019-20 State budget (the “**2019-20 State Budget**”) into law. The 2019-20 State Budget calls for total spending of \$214.8 billion, with \$147.8 billion in general fund spending. The 2019-20 State Budget provides for \$81.1 billion of funding through Proposition 98, the primary source of funding for K-12 school districts and community college districts, an increase of \$2.7 billion, or 3.4%, from the 2018-19 State budget. Of that \$81.1 billion, \$62.9 billion will be distributed to K-12 school districts through the LCFF, which will be fully funded during fiscal year 2019-20, restoring every school district in the State to at least pre-recession funding levels.

The 2019-20 State Budget continues to build State reserves, with the rainy-day fund balance projected to grow to \$16.5 billion by the end of the budget year. Additionally, revenues have been set aside in new savings funds, including a \$900 million reserve for safety net programs. Other significant features of the 2019-20 State Budget include:

- \$1.5 billion anticipated in Proposition 51 bond funds for school facilities and an additional \$1.2 million of ongoing Proposition 51 bond funds;
- \$5 million one-time funding for a long-term strategic plan to provide childcare and preschool for children from birth through age twelve;
- \$300 million one-time funding to construct new or retrofit existing facilities to support full-day kindergarten programs;
- \$645.3 million ongoing funding for special education, including \$152.6 million to provide all Special Education Local Plan Areas with at least the statewide target rate for base special education funding.
- \$147.4 million one-time and ongoing funding to address the shortage of teachers;
- \$918 million in additional funding to identify and implement recommendations and solutions to reduce wildfire risk, bolster the state’s emergency preparedness capacity and protect vulnerable communities;
- \$518,000 one-time funding to reimburse cities, counties and special districts for 2018-19 property tax losses and a corresponding \$530,000 that will be used to backfill property tax revenue losses for K-14 schools in those cities, counties and districts;
- \$460 million one-time general funding to increase the quality and availability of child care, including \$263 million for child care and preschool facilities expansion and \$195 million for childcare and preschool workforce development;
- one-time funding of \$750 million to support local governments in increasing and accelerating housing production; and

- one-time funding of \$650 million to support local governments in addressing homelessness, to be used for emergency shelters and navigation centers, rapid rehousing, permanent supportive housing, job programs and hotel/motel conversions.

Disclaimer Regarding State Budgets. The implementation of the foregoing 2018-19 State Budget and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2018-19 State Budget, or subsequent state budgets, will have on its own finances and operations. However, the Refunding Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

The State has not entered into any contractual commitments with the District, the County, the Underwriter or the owners of the Refunding Bonds to provide State budget information to the District or the owners of the Refunding Bonds. Although they believe the sources of information listed below are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of State budget information set forth or referred to or incorporated in this Official Statement.

Availability of State Budgets. The complete 2019-20 State Budget is available from the California Department of Finance website at www.ebudget.ca.gov. An impartial analysis of the budget is published by the Legislative Analyst Office, and is available at www.lao.ca.gov/budget. Neither the District nor the Underwriter can take responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Refunding Bonds.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State legislature or the Governor to address the State's current or future revenues and expenditures, or possible future budget deficits. Future State budgets will be affected by national and State economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its own budgets.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations has been the subject of various legal challenges in the past. The District cannot predict if or when there will be changes to education funding or legal challenges which may arise relating thereto.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Refunding Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111 and 218, 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 District to levy taxes and 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 District to levy taxes for payment of the Refunding Bonds. The tax levied by the County for payment of the Refunding Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIII A of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 (“**Proposition 13**”), which added Article XIII A to the State Constitution (“**Article XIII A**”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the Refunded Bonds), and (iii) (as a result of an amendment to Article XIII A approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. The tax for the payment of the Refunding Bonds falls within the exception described in (iii) of the immediately preceding sentence. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment”. This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

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

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

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

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The SBE has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

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. 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 under 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 debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from

certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article 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. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

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 under Section 8.5 of Article XVI of the State Constitution.

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. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Articles XIII C and XIII D of the California Constitution

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIIC 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.

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.

While 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), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Refunding Bonds.

Proposition 98

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

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school

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

Proposition 111

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit 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:

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 California *per capita* personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

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

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above 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 Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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.

School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “**first test**”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to *per capita* personal income) and enrollment (the “**second test**”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less than the annual growth in California per capita personal income (the “**third test**”). Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

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

The 55% vote 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 levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for an elementary school district or high school district), or \$25 (for a community college district), per \$100,000 of taxable property value. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amended 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-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended 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, a constitutional initiative entitled the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” approved on November 2, 2010, superseded many of the provision of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

Because Proposition 22 reduces the State’s authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State’s general fund.

Proposition 30 and Proposition 55

The Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “**Proposition 30**”), temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by:

(i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$600,000 but less than \$1,000,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers). Proposition 55 (described below) extended said increases to personal income rates through the end of 2030.

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

The California Children’s Education and Health Care Protection Act of 2016, also known as Proposition 55, was a proposed constitutional amendment initiative that was approved on the November 8, 2016 general election ballot in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030, instead of the scheduled expiration date of December 31, 2018. Tax revenue received under Proposition 55 is to be allocated 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax increases of Proposition 30.

California Senate Bill 222

Senate Bill 222 (“**SB 222**”) was signed by the California Governor on July 13, 2015 and became effective on January 1, 2016. SB 222 amended Section 15251 of the California Education Code and added Section 52515 to the California Government Code to provide that voter approved general obligation bonds which are secured by *ad valorem* tax collections such as the Refunding Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Said lien shall attach automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the issuer, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act. The effect of SB 222 is the treatment of general obligation bonds as secured debt in bankruptcy due to the existence of a statutory lien.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111, 22, 26, 30, 39 and 55 were each adopted as measures that qualified for the ballot under 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.

APPENDIX B

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

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**McKINLEYVILLE UNION
SCHOOL DISTRICT**

**County of Humboldt
State of California
Audit Report
June 30, 2018**

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FINANCIAL SECTION

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, 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 McKinleyville Union School District, as of and for the year ended June 30, 2018, which collectively comprise the district's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America and 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, issued by the Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Other Post-Employment Benefits - schedule of changes in the District's total OPEB liability and related ratios and schedule of District contributions for OPEB, schedule of required pension contributions, and schedule of proportionate share of net pension liability on pages 4 through 13, 49, 50, 51 through 52, and 53 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McKinleyville Union School District's basic financial statements. The table of contents listing of the supplementary section, including the combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statement as a whole.

The supplementary section, including the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

May, Abrahamsen & Barsanti

**December 17, 2018
McKinleyville, California**

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

Introduction

The Management's Discussion and Analysis section is included in the audit for the McKinleyville Union School District (District) as management's view of the district's financial condition, and provides an opportunity to discuss important fiscal issues with the Governing Board and the public. Accounting rules require this discussion and analysis. These rules make reporting of district's finances similar to that of private business.

The mission of the McKinleyville Union School District, a student-centered community on the Redwood Coast, is to develop ethical citizens and lifelong learners successfully engaged in a changing global society.

For all students we are committed to:

- Ensuring a safe, healthy, and supportive environment;
- Providing challenging and innovative educational programs;
- Embracing diversity and a small community as strengths;
- Promoting critical thinking, digital literacy, multilingualism, and creative expression;
- Developing confident, self-directed, productive, responsible citizens; and
- Supporting a caring, well-trained staff.

The District serves the residents of this community in Humboldt County.

Using This Annual Report

This section of the District's annual financial report presents our discussion and analysis of our financial performance during the fiscal year that ended on June 30, 2018. It should be read in conjunction with the Independent Auditor's Report immediately proceeding and the financial statements that follow this section. This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

Financial Highlights

- The District's total cash decreased by \$403,950 over the prior year. This can be attributed to spending approximately \$225,000 of one-time funds set aside for Common Core on unexpected increases, including Special Education, staff on leave (sick leave), other miscellaneous items, and approximately \$175,000 of on-time Prop 39 expenditures.
- Accumulated depreciation increased by \$482,075 as a result of the completion capital assets with now one year depreciation.
- California Basic Education Data System (CBEDS) enrollment in October 2017 was reported at 1,172 which was a gain of 26 students over the prior year, but that did not hold, with enrollment dropping to a year average of 1,154.
- The average daily attendance (ADA) as reported at period two (P-2) was 1,101.69, including 13.10 ADA for our Special Education Master Plan students that are served by Humboldt County Office of

Education programs. ADA for students receiving services out-of-county is received through Special Education CASEMIS counts like other Glen Paul students.

- The District exceeds the State required minimum reserves for economic uncertainty of three percent (3%). The reserve serves as a source of funds for uninsured losses, possible mid-year cuts, increased retirement liability, as well as cash flow issues associated with deferred revenue. This calculation is based upon the combined General Fund expenditures, transfers out and other uses (total outgo). For fiscal year 2017-2018, expenditures and other uses totaled \$12,419,370 for the General Fund. Available reserves for economic uncertainty was \$1,034,786, which equals a 9% reserve level.
- The District has \$34,123,223 in long-term liabilities, of which \$21,478,339 is due to the general obligation bonds and is outlined in the statements as due after one year (includes 2014 and 2015 refunding).
- The District is also now required to account for employee STRS Liability, which at the close of 2017-2018 was \$11,463,959. Amount will adjust year-to-year based on total certificated gross salaries.
- The District does maintain a separate fund to provide a reserve for future retiree health benefit costs. The fund balance at June 30, 2018 was \$547,225.

The Financial Report

The full annual financial report consists of three separate parts, including the basic financial statements, supplementary information, and Management's Discussion and Analysis. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, government-wide and funds.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements comprise the remaining statements.
 - ❖ Basic services funding is described in the government funds statements. These statements include short-term financing and identify the balance remaining for future spending.
 - ❖ Financial relationships, for which the District acts as an agent or trustee for the benefit of others to whom the resources belong, are presented in the fiduciary fund statements.

Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information provides further explanations and provides additional support for the financial statements. A budgetary comparison of the District's General Fund and major Special Reserve Funds is included.

Reporting the District as a Whole

The District as a whole is reported in the Government-wide statements and uses accounting methods similar to those used by companies in the private sector. All of the District's assets and liabilities are included in the Statement of Net Position. The Statement of Activities reports all of the current year's revenues and expenses regardless of when cash is received or paid.

The District's financial health or position (net position) can be measured by the difference between the District's assets and liabilities.

- Increases or decreases in the net position of the District over time are indicators of whether its financial position is providing or deteriorating, respectively.

- Additional non-financial factors such as the condition of school buildings and other facilities, and changes in the property tax base of the District need to be considered in assessing the overall health of the District.

Information included in the Statement of Net Position and the Statement of Activities, consists solely of the governmental activities of the District.

Governmental Activities are the basic services provided by the District, such as regular and special education, administration, and transportation are included here, and are primarily financed by state apportionments, property taxes, impact aid, and other state and federal aid. Non-basic services, such as child nutrition are also included here, but are financed by a combination of state and federal contracts, grants, and local revenues.

Reporting the District's Most Significant Funds

The District's fund-based financial statements provide detailed information about the District's most significant funds. Some funds are required to be established by State law, while other funds have been established to control and manage money for specific purposes.

Governmental Funds:

The major governmental funds of the District are the General Fund, Capital Outlay Reserve, Capital Facility Fund, and Bond Fund. Governmental reporting focuses on how money flows into and out of the funds and the balances that remain at the end of the year. A modified accrual basis of accounting measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services. Governmental fund information helps to determine the level of financial resources available in the near future to finance the District's programs.

Fiduciary Funds:

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Fiduciary Statements. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance their operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the School District As a Whole

Comparative Statement of Net Position

	Governmental Activities		Difference
	2018	2017	
<u>Assets:</u>			
Cash	\$ 2,468,657	\$ 2,872,607	\$ (403,950)
Receivables	\$ 376,556	\$ 311,870	\$ 64,686
Stores Inventory	\$ 2,689	\$ 2,626	\$ 63
Capital Assets, net	\$ 15,011,292	\$ 15,083,775	\$ (72,483)
Total Assets	<u>\$ 17,859,194</u>	<u>\$ 18,270,878</u>	<u>\$ (411,684)</u>
Deferred Outflow of Resources	\$ 3,823,952	\$ 1,873,056	\$ (1,950,896)
<u>Liabilities:</u>			
Accounts Payable	\$ 335,667	\$ 252,004	\$ 83,663
Unearned Income	\$ 10,942	\$ 8,373	\$ 2,569
General Obligation Bonds (due w/in 1 yr)	\$ 240,000	\$ 215,000	\$ 25,000
Net OPEB Obligation	\$ 1,180,925	\$ 241,338	\$ 939,587
Net pension liability	\$ 11,463,959	\$ 10,304,465	\$ 1,159,494
Compensated Absences Payable	\$ 79,368	\$ 81,759	\$ (2,391)
General Obligation Bonds (due after 1 yr)	\$ 21,478,339	\$ 20,809,940	\$ 668,399
Total Liabilities	<u>\$ 34,789,200</u>	<u>\$ 31,912,879</u>	<u>\$ 2,876,321</u>
Deferred Inflow of Resources	\$ 2,117,996	\$ 1,318,353	\$ 799,643
<u>Net Position:</u>			
Net Investment in Capital Assets	\$ (6,707,047)	\$ (5,941,165)	\$ (765,882)
Restricted	\$ 869,124	\$ 647,444	\$ 221,680
Unrestricted	\$ (9,386,127)	\$ (7,793,577)	\$ (1,592,550)
Total Net Position	<u>\$ (15,224,050)</u>	<u>\$ (13,087,298)</u>	<u>\$ (2,136,752)</u>

Table includes financial data of combined governmental funds

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

Comparative Statement of Changes in Net Position

	Governmental Activities		Difference
	2018	2017	
Program Revenues:			
Charges for Services	\$ 285,961	\$ 262,036	\$ 23,925
Operating Grants and Contributions	\$ 2,487,322	\$ 1,950,898	\$ 536,424
Capital Grants and Contributions	\$ -	\$ -	\$ -
General Revenues			
Taxes Levied/General Purpose	\$ 4,962,234	\$ 4,710,174	\$ 252,060
Taxes Levied/Debt Service	\$ 494,800	\$ 489,773	\$ 5,027
Federal and State Aid	\$ 4,698,695	\$ 4,748,800	\$ (50,105)
Interest and Investment Earnings	\$ 34,149	\$ 33,088	\$ 1,061
Interagency Revenues	\$ 92,194	\$ 101,108	\$ (8,914)
Miscellaneous	\$ 117,283	\$ 72,039	\$ 45,244
Total Revenues	\$ 13,172,638	\$ 12,367,916	\$ 804,722
Program Expenses:			
Instruction	\$ 8,395,165	\$ 8,965,320	\$ (570,155)
Instruction-Related Services	\$ 1,284,381	\$ 1,374,357	\$ (89,976)
Pupil Services	\$ 1,375,949	\$ 1,373,964	\$ 1,985
General Administration	\$ 782,705	\$ 806,006	\$ (23,301)
Plant Services	\$ 759,692	\$ 787,176	\$ (27,484)
Ancillary Services	\$ 116,108	\$ 115,310	\$ 798
Community Services	\$ 3,452	\$ 4,982	\$ (1,530)
Other Outgo	\$ 540,699	\$ 684,929	\$ (144,230)
Interest on Long-Term Debt	\$ 1,178,317	\$ 1,100,577	\$ 77,740
Total Expenses	\$ 14,436,468	\$ 15,212,621	\$ (776,153)
Change in Net Position	\$ (1,263,830)	\$ (2,844,705)	\$ 1,580,875

Table includes financial data of combined governmental funds

Total District Expenses exceeded total District Revenues by \$1,263,830 during fiscal year 2017-2018. It is important to note, however, that the Net Position Table includes bond debt/interest.

Comparative Statement of Changes in Net Position

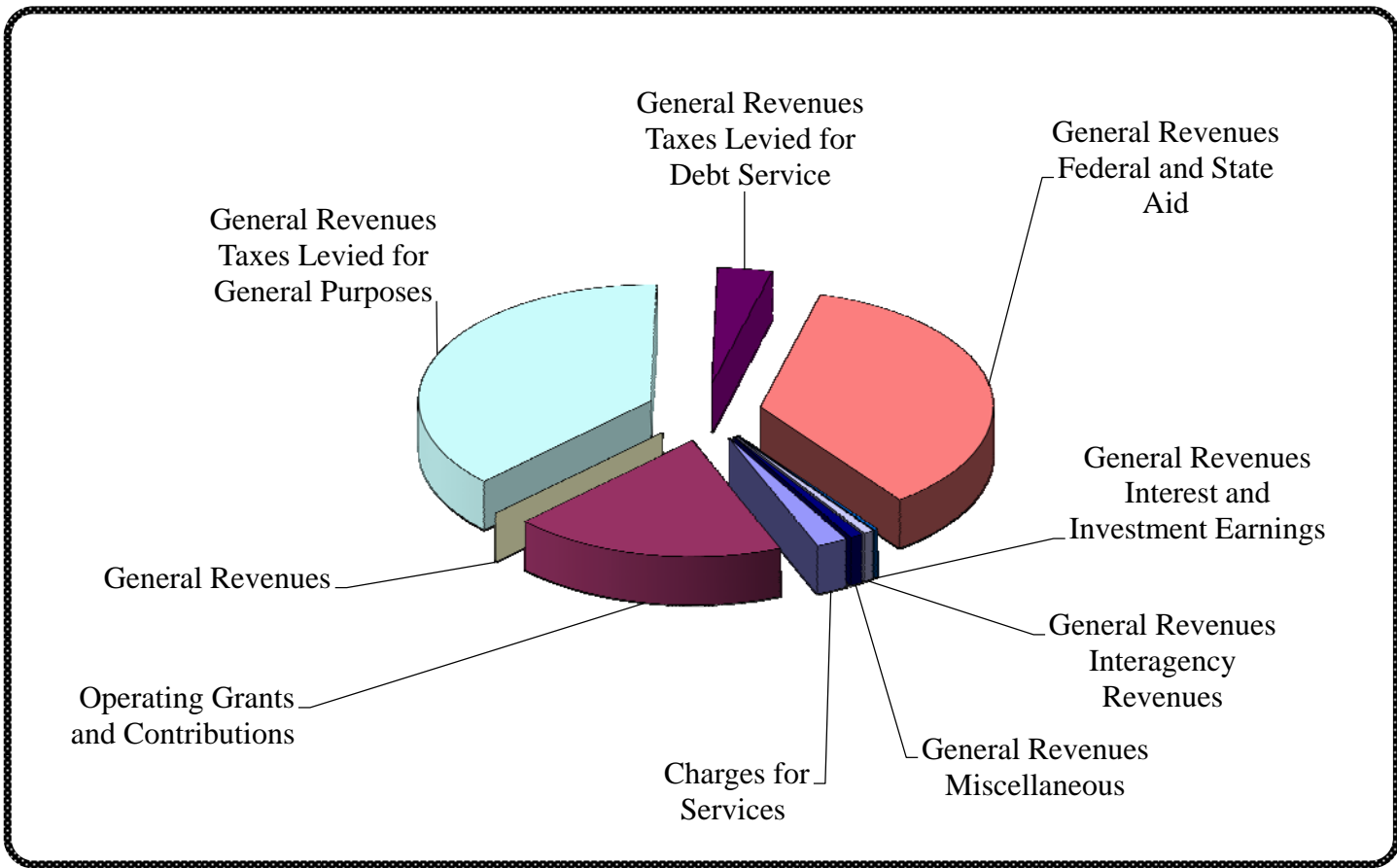
	<u>Total Cost of Services</u>		<u>Percentage</u>	<u>Net Cost of Services</u>		<u>Percentage</u>
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>
Program Expenses:						
Instruction	\$ 8,395,165	\$ 8,965,320	-6.36%	\$ 7,162,879	\$ 7,720,000	-7.22%
Instruction-Related Services	\$ 1,284,381	\$ 1,374,357	-6.55%	\$ 1,161,889	\$ 1,253,312	-7.29%
Pupil Services	\$ 1,375,949	\$ 1,373,964	0.14%	\$ 728,066	\$ 771,817	-5.67%
General Administration	\$ 782,705	\$ 806,006	-2.89%	\$ 746,496	\$ 771,619	-3.26%
Plant Services	\$ 759,692	\$ 787,176	-3.49%	\$ 146,043	\$ 722,458	-79.79%
Ancillary Services	\$ 116,108	\$ 115,310	0.69%	\$ 115,958	\$ 115,084	0.76%
Community Services	\$ 3,452	\$ 4,982	-30.71%	\$ 3,452	\$ 4,982	-30.71%
Other Outgo	\$ 540,699	\$ 684,929	-21.06%	\$ 420,085	\$ 539,838	-22.18%
Interest on Long Term Debt	\$ 1,178,317	\$ 1,100,577	7.06%	\$ 1,178,317	\$ 1,100,577	7.06%
Total Expenses	\$ 14,436,468	\$ 15,212,621	-5.10%	\$ 11,663,185	\$ 12,999,687	-10.28%

Table includes financial data of combined governmental funds

The table presented above shows the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and state and federal aid provided for the specific programs).

Summary of Revenues For Governmental Functions

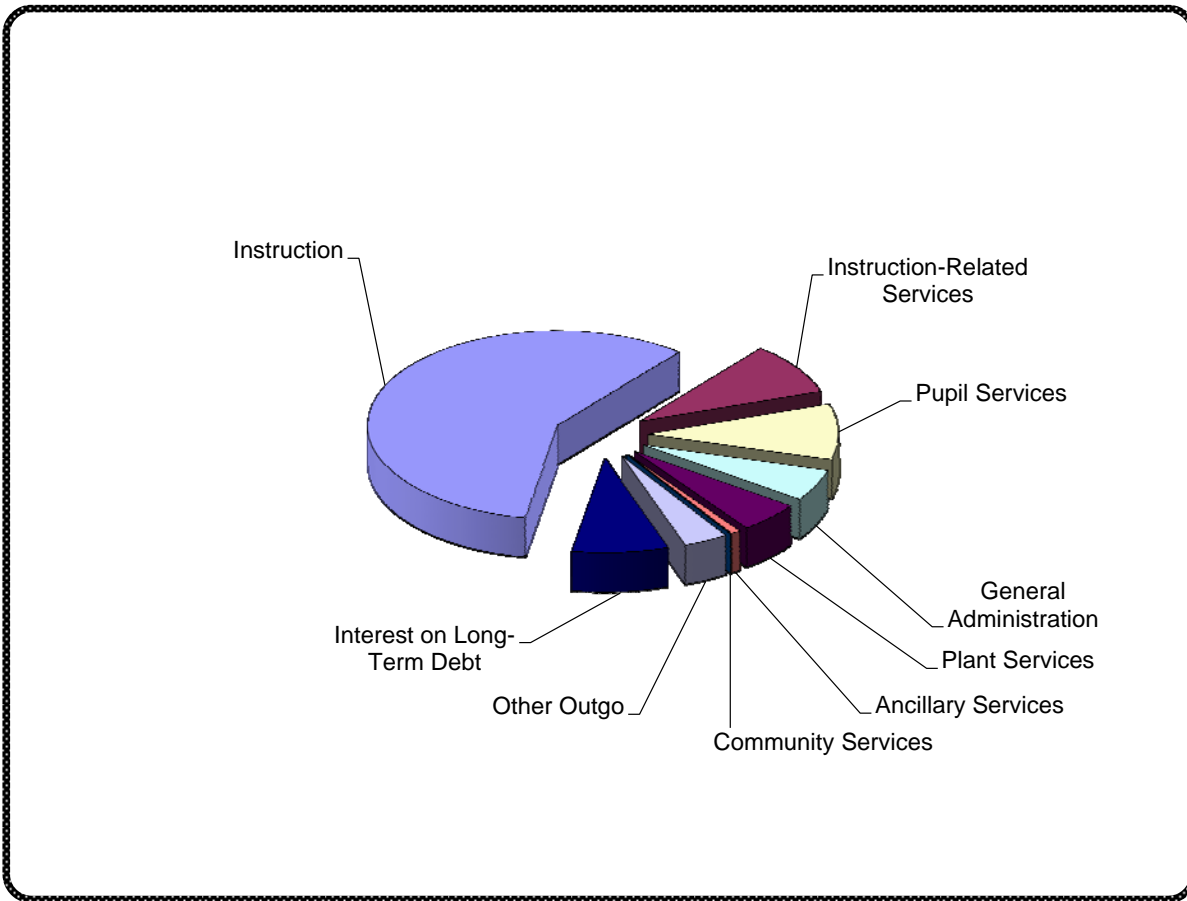
	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent of Total</u>
Program Revenues:				
Charges for Services	\$ 285,961	2.17%	\$ 262,036	2.12%
Operating Grants and Contributions	\$ 2,487,322	18.88%	\$ 1,950,898	15.77%
General Revenues				
Taxes Levied for General Purposes	\$ 4,962,234	37.67%	\$ 4,710,174	39.68%
Taxes Levied for Debt Service	\$ 494,800	3.76%	\$ 489,773	3.96%
Federal and State Aid	\$ 4,698,695	35.67%	\$ 4,748,800	38.40%
Interest and Investment Earnings	\$ 34,149	0.26%	\$ 33,088	0.27%
Interagency Revenues	\$ 92,194	0.70%	\$ 101,108	0.82%
Miscellaneous	\$ 117,283	0.89%	\$ 72,039	0.58%
 Total Revenues	 <u>\$ 13,172,638</u>	 <u>100.00%</u>	 <u>\$ 12,367,916</u>	 <u>100.00%</u>



Schedule of Expenses for Governmental Functions

	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>	<u>FYE 2017 Amount</u>	<u>Percent Inc/(Dec)</u>
Program Expenses:				
Instruction	\$ 8,395,165	58.15%	\$ 8,965,320	-6.79%
Instruction-Related Services	\$ 1,284,381	8.90%	\$ 1,374,357	-7.01%
Pupil Services	\$ 1,375,949	9.53%	\$ 1,373,964	0.14%
General Administration	\$ 782,705	5.42%	\$ 806,006	-2.98%
Plant Services	\$ 759,692	5.26%	\$ 787,176	-3.62%
Ancillary Services	\$ 116,108	0.80%	\$ 115,310	0.69%
Community Services	\$ 3,452	0.02%	\$ 4,982	-44.32%
Other Outgo	\$ 540,699	3.75%	\$ 684,929	-26.67%
Interest on Long-Term Debt	\$ 1,178,317	8.16%	\$ 1,100,577	6.60%
Total Expenses	<u>\$ 14,436,468</u>	<u>100.00%</u>	<u>\$ 15,212,621</u>	<u>-5.38%</u>

Expenses by Program Decreased by \$776,153.



Comparative Schedule of Capital Assets

	Governmental Activities		Difference
	2018	2017	
Land	\$ 56,024	\$ 56,024	\$ -
Buildings and Improvements	\$ 21,960,839	\$ 21,922,109	\$ 38,730
Furniture and Equipment	\$ 1,765,379	\$ 1,571,728	\$ 193,651
Work-In-Progress	\$ 204,211	\$ 27,000	\$ 177,211
Subtotals	\$ 23,986,453	\$ 23,576,861	\$ 409,592
Less: Accumulated Depreciation	\$ (8,975,161)	\$ (8,493,086)	\$ (482,075)
Capital Assets, net	\$ 15,011,292	\$ 15,083,775	\$ (72,483)

	Fund Balances June 30, 2018	Fund Balances June 30, 2017	Increase (Decrease)
General Fund	\$ 410,794	\$ 812,787	\$ (401,993)
Cafeteria Fund	\$ 99,443	\$ 128,928	\$ (29,485)
Special Reserve Fund	\$ 1,034,786	\$ 1,021,288	\$ 13,498
Retiree Benefit Fund	\$ 547,225	\$ 539,579	\$ 7,646
Building Fund	\$ -	\$ -	\$ -
Capital Facilities Fund	\$ 68,960	\$ 97,532	\$ (28,572)
Capital Outlay Reserve Fund	\$ 16,494	\$ 16,262	\$ 232
Bond Interest & Redemption Fund	\$ 434,825	\$ 424,289	\$ 10,536
Totals	\$ 2,612,527	\$ 3,040,665	\$ (428,138)

The total of all fund balances decreased by \$428,138 between June 2017 and June 2018. The General Fund decreased primarily due the expenditures related unexpected increase of costs to support students with special needs, and the use of one-time funds earmarked for Common Core implementation and Prop 39 Clean Energy. The Cafeteria Fund decrease was due to an increase cost of pension benefits, equipment repairs, and extended leave of several staff members, requiring payments for both sick leave and substitutes. The Retiree Benefit Fund increase was due to interest earned during the year. The Building Fund has a \$0.00 balance due to the completion of the Measure C Bond Projects. The Capital Facilities Fund decreased due to modernization projects over the year in classrooms and libraries. The Capital Outlay Reserve Fund increased as a result of interest earned on account balances. The Bond Interest and Redemption Fund increased based on the annual obligation of bond debt for the particular year.

General Fund Budgetary Highlights

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revised its annual operating budget at various times to reflect the most recent financial information available. The most significant budget adjustments made during the year fall into the following categories: revisions to the adopted budget required after approval of the State budget and revisions to adjust program revenues and expenditures to final awards for state and federal categorical programs.

Economic Factors Bearing on the District's Future

The forecast for the State budget has improved significantly year over year for the last five budget years as compared to recession budget years for K-12 Education. California schools have experienced the most significant education funding reform within the last 40 years under the new Local Control Funding Formula (LCFF), which as of the 2018-2019 school year is fully-implemented. State Revenues are currently exceeding the Governor's 2018-2019 projection, which is a good indicator of an improving economy; however, economic forecasts over the next three years indicate a gradual slowdown nationwide, which if the markets decline, so due the heavily market-dependent taxes in California. Most projections are confident of moderate growth through 2019, but give caution as we move to the third year out. There is pressure to provide an increase in Common Core funding, as well as help address the increasing State Teachers Retirement System rate increase approved by the legislature in the 2014-2015 Budget. Pressure to provide support to address these new expenses is heavy on Governor Brown.

Negotiations with the Certificated bargaining group is settled for the 2018-2019 through 2019-2020 school year, and settled for Classified and Unrepresented for the 2018-2019 school year as of the publication of this report. The continued demands on the unrestricted general fund revenues to meet the mandates surrounding special education services and increasing employee retirement contributions must be monitored very carefully.

For 2017-2018 year, enrollment held fairly stable for the first two months, and then dropped significantly by more than 20 students, with the year ending with an average total enrollment of 1,154 students. For the 2018-2019 school year, enrollment has dropped significantly from the prior year, in fact down 34 students from a projected enrollment of 1,162. This drop relates primarily to families moving out of the area, as well as families moving students to other districts. Flat enrollment of "1128" for both out-years is currently projected, but if enrollment is not stabilized, the current drop may reflect a downward adjustment for subsequent year projections. The District continues to take a proactive position on goals to increase enrollment, as well as attendance in both the current and subsequent budget years.

Contacting the District's Financial Management

The financial report is designed to provide our citizens, taxpayers, students, developers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Superintendent, McKinleyville Union School District, 2275 Central Avenue, McKinleyville, CA 95519.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

ASSETS	<u>Governmental Activities</u>
Cash in county treasury	\$ 2,466,082
Cash in revolving fund/banks	2,575
Accounts receivable	376,556
Stores inventories	2,689
Land	56,024
Buildings and improvements	21,960,839
Equipment	1,765,379
Work in progress	204,211
Less accumulated depreciation	(8,975,161)
Total assets	<u>17,859,194</u>
Deferred Outflow of Resources	<u>3,823,952</u>
 LIABILITIES	
Accounts payable	335,667
Unearned income	10,942
Long-term liabilities:	
Due within one year:	
General obligation bonds	240,000
Compensated absences payable	79,368
Total due within one year	<u>319,368</u>
Due after one year:	
General obligation bonds	21,478,339
Net pension liability	11,463,959
Net OPEB obligation	1,180,925
Total due after one year	<u>34,123,223</u>
Total liabilities	<u>34,789,200</u>
Deferred Inflow of Resources	<u>2,117,996</u>
 NET POSITION	
Net investment in capital assets	(6,707,047)
Restricted for:	
Capital projects	85,454
Debt service	323,591
Educational programs	360,636
Food service	99,443
Unrestricted	<u>(9,386,127)</u>
Total net position	<u>\$ (15,224,050)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 8,395,165	\$ 56,103	\$ 1,176,183	\$ 0	\$ (7,162,879)
Instruction-related services:					
Supervision of instruction	219,124	1,465	48,027	0	(169,632)
Instructional library, media and technology	209,053	0	41,610	0	(167,443)
School site administration	856,204	0	31,390	0	(824,814)
Pupil services:					
Home-to-school transportation	392,331		0	0	(392,331)
Food services	548,981	148,540	367,155	0	(33,286)
All other pupil services	434,637	8,132	124,056	0	(302,449)
General administration:					
Centralized data processing	28,539	0	0	0	(28,539)
All other general administration	754,166	7,402	28,807	0	(717,957)
Plant services	759,692	52,687	560,962	0	(146,043)
Ancillary services	116,108	0	150	0	(115,958)
Community services	3,452	0	0	0	(3,452)
Other outgo	540,699	11,632	108,982	0	(420,085)
Interest on long-term debt	1,178,317	0	0	0	(1,178,317)
Total governmental activities	<u>\$ 14,436,468</u>	<u>\$ 285,961</u>	<u>\$ 2,487,322</u>	<u>\$ 0</u>	<u>(11,663,185)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					4,962,234
Taxes levied for debt service					494,800
Federal and state aid not restricted to specific purposes					4,698,695
Interest and investment earnings					34,149
Interagency revenues					92,194
Miscellaneous					117,283
Total general revenues, special items and transfers					<u>10,399,355</u>
Change in net position					(1,263,830)
Net position beginning - July 1, 2017- As restated					<u>(13,960,220)</u>
Net position ending - June 30, 2018					<u>\$ (15,224,050)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2018

ASSETS	General	Bond Interest and Redemption Fund	Capital Outlay Reserve	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Cash in county treasury	\$ 1,944,344	\$ 434,825	\$ 16,432	\$ 70,481	\$ 0	\$ 2,466,082
Cash in revolving fund	2,500	0	0	0	75	2,575
Accounts receivable	257,199	0	62	128	119,167	376,556
Due from other funds	10,698	0	0	0	0	10,698
Stores inventories	0	0	0	0	2,689	2,689
Total assets	\$ 2,214,741	\$ 434,825	\$ 16,494	\$ 70,609	\$ 121,931	\$ 2,858,600
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 221,936	0	\$ 0	\$ 1,649	\$ 848	\$ 224,433
Due to other funds	0	0	0	0	10,698	10,698
Unearned income	0	0	0	0	10,942	10,942
Total liabilities	221,936	0	0	1,649	22,488	246,073
Fund balances:						
Nonspendable:						
Revolving fund	2,500	0	0	0	75	2,575
Stores inventories	0	0	0	0	2,689	2,689
Restricted:						
School construction	0	0	0	68,960	0	68,960
California Clean Energy Jobs	340,414	0	0	0	0	340,414
Educator Effectiveness	0	0	0	0	0	0
Food service	0	0	0	0	96,679	96,679
Other	20,222	0	0	0	0	20,222
Committed:						
Debt service	0	434,825	0	0	0	434,825
Assigned:						
Common core implementation	3,188	0	0	0	0	3,188
Retiree benefit reserve	547,225	0	0	0	0	547,225
Lottery	44,470	0	0	0	0	44,470
Capital outlay	0	0	16,494	0	0	16,494
Other	0	0	0	0	0	0
Unassigned:						
Reserve for Economic Uncertainty	1,034,786	0	0	0	0	1,034,786
Total fund balances	1,992,805	434,825	16,494	68,960	99,443	2,612,527
 Total liabilities and fund balances	 \$ 2,214,741	 \$ 434,825	 \$ 16,494	 \$ 70,609	 \$ 121,931	 \$ 2,858,600

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2018

Total fund balances - governmental funds	\$	2,612,527
<p>Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,986,453 and the accumulated depreciation is \$(8,975,161).</p>		
		15,011,292
To recognize accrued interest at year end.		(111,234)
<p>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 consist of:</p>		
General obligation bonds payable	\$	17,524,201
Accreted interest		4,194,138
Net pension liability		11,463,959
Net OPEB obligation		1,180,925
Compensated absences (vacation)		79,368
		(34,442,591)
<p>Deferred inflows and outflows of resources relating to pensions:</p>		
<p>In governmental funds deferred inflows and outflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred inflows and outflows of resources relating to pensions are reported.</p>		
Deferred inflows of resources relating to pensions:		(2,117,996)
Deferred outflows of resources relating to pensions:		3,823,952
		(15,224,050)
Total net position - governmental activities	\$	<u>(15,224,050)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
June 30, 2018

	General	Bond Interest and Redemption Fund	Capital Outlay Reserve	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Revenue limit sources:						
State apportionments	\$ 4,328,512	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,328,512
Local sources	4,962,234	0	0	0	0	4,962,234
Federal revenues	568,787	0	0	0	377,881	946,668
Other state revenues	1,347,791	0	0	0	28,574	1,376,365
Other local revenues	831,198	498,157	231	63,883	165,392	1,558,861
Total revenues	<u>12,038,522</u>	<u>498,157</u>	<u>231</u>	<u>63,883</u>	<u>571,847</u>	<u>13,172,640</u>
Expenditures:						
Instruction	7,898,903	0	0	0	0	7,898,903
Instruction-related services:						
Supervision of instruction	219,124	0	0	0	0	219,124
Instructional library, media and technology	209,053	0	0	0	0	209,053
School site administration	856,204	0	0	0	0	856,204
Pupil services:						
Home-to-school transportation	351,077	0	0	0	0	351,077
Food services	1,132	0	0	0	547,586	548,718
All other pupil services	434,637	0	0	0	0	434,637
General administration:						
Data processing services	28,539	0	0	0	0	28,539
All other general administration	721,005	2,415	0	0	27,287	750,707
Plant services	729,959	0	0	0	18,897	748,856
Facilities construction	303,599	0	0	92,454	13,440	409,493
Ancillary services	116,108	0	0	0	0	116,108
Community services	3,452	0	0	0	0	3,452
Other outgo - transfers between agencies	540,699	0	0	0	0	540,699
Debt service:						
Principal	0	215,000	0	0	0	215,000
Interest	0	270,206	0	0	0	270,206
Total expenditures	<u>12,413,491</u>	<u>487,621</u>	<u>0</u>	<u>92,454</u>	<u>607,210</u>	<u>13,600,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(374,969)</u>	<u>10,536</u>	<u>231</u>	<u>(28,571)</u>	<u>(35,363)</u>	<u>(428,136)</u>
Other financing sources (uses):						
Operating transfers in	0	0	0	0	5,879	5,879
Operating transfers out	(5,879)	0	0	0	0	(5,879)
Total other financing sources (uses)	<u>(5,879)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,879</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>(380,848)</u>	<u>10,536</u>	<u>231</u>	<u>(28,571)</u>	<u>(29,484)</u>	<u>(428,136)</u>
Fund balances, July 1, 2017	<u>2,373,653</u>	<u>424,289</u>	<u>16,263</u>	<u>97,531</u>	<u>128,927</u>	<u>3,040,663</u>
Fund balances, June 30, 2018	<u>\$ 1,992,805</u>	<u>\$ 434,825</u>	<u>\$ 16,494</u>	<u>\$ 68,960</u>	<u>\$ 99,443</u>	<u>\$ 2,612,527</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
Year Ended June 30, 2018

Total net change in fund balance - governmental funds	\$ (428,136)
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. This is the amount by which additions to capital outlay of \$409,592 exceeds depreciation expense \$(482,075) in the period.	(72,483)
In the statement of activities, OPEB cost are recognized on the accrual basis. In government funds, OPEB costs are recognized when actually paid.	(66,665)
Debt service repayments in governmental funds are reported as expenditures. In government-wide statements, repayments of long-term debt are reported as a reduction of liabilities. Repayments long-term debt were:	215,000
Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This years difference between accrual-base pension costs and actual employer contributions was:	(8,241)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used by:	2,391
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.	<u>(905,696)</u>
Total change in net position of governmental activities	\$ <u><u>(1,263,830)</u></u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Agency Funds</u> <u>Student</u> <u>Body</u> <u>Funds</u>
ASSETS:	
Cash in bank	\$ <u>90,445</u>
Total assets	\$ <u>90,445</u>
LIABILITIES:	
Due to student groups	\$ <u>90,445</u>
Total liabilities	\$ <u>90,445</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The McKinleyville Union School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the district conform to generally accepted accounting principles as prescribed by the 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.

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 nonfiduciary activities of the district and its components units. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

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, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the government include 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 which 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.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Basis of Presentation (Cont.)

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 and current liabilities 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.

Fiduciary funds are reported using the economic resources measurement focus should the district have any.

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 one year.

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.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Basis of Accounting (Cont.)

Revenues - Exchange and Non-exchange Transactions (Cont):

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.

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 unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On 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, then 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, liabilities, 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:

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Fund Accounting (Cont.)

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 Bond Interest and Redemption Fund is used to account for the accumulation of resources for , and the repayment of district bonds, interest and related costs.

The Capital Facilities Fund is used to account for revenues received from the assessment of developer fees.

The Capital Outlay Reserve Fund is used to account for acquisition and/or construction of all major governmental fixed assets.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains one non-major special revenue fund:

- * The Cafeteria Fund is used to account for revenues received and expenditures made to operate the district's cafeterias.

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 account. The district maintains three student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the district.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 and district superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and major Special Revenue Funds in the financial statements.

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 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. Assets, Liabilities, and Equity

1. Deposits 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.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont)

1. Deposits and Investments (Cont):

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

2. Stores Inventories and Prepaid Expenditures:

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The district's central warehouse and cafeteria inventories are valued at average cost using the First-In-First-Out (FIFO) method.

The district has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The district has chosen to report the expenditure when incurred. On the government-wide statements, the district reports unamortized debt issuance cost as prepaid expense, if material.

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

3. Capital Assets (Cont.)

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation, and air conditioning systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

4. Unearned Revenue:

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences:

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured for example, as a result of employee resignations and retirements.

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

6. Long-Term Obligations:

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 are recognized in the current period.

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/uses.

7. Fund Balance Classifications

The District implemented Fund Balance Reporting and Governmental Fund Type Definitions in 2010-11, which implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are:

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

7. Fund Balance Classifications (Cont.)

1) Nonspendable Fund Balance

The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment. The District has no permanent endowments.

2) Restricted Fund Balance

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide financial statements.

3) Committed Fund Balance

The Governing Board, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use through the same type of formal action taken to establish the commitment.

Governing Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements.

4) Assigned Fund Balance

Amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the District Superintendent or Designee for the purpose of reporting these amounts in the annual financial statements.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

7. Fund Balance Classifications (Cont.)

5) Unassigned Fund Balance

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. There are some reserves that do not meet the requirements of the fore mentioned components of fund balance. For financial statement reporting purposes these reserves are included in unassigned fund balance. This includes:

Reserve For Economic Uncertainty Reserve

The District will maintain an economic uncertainty reserve of at least 5% of total General Fund operating expenditures (including other financing). The primary purpose of this reserve is to avoid the need for service level reductions in the event of an economic downturn causing revenues to come in lower than budget. This reserve may be increased from time to time in order to address specific anticipated revenue shortfalls (state actions, etc.).

The District considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The above policy is in place to provide a measure of protection for the District against unforeseen circumstances.

8. Revenue Limit/Property Tax:

The district's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes which 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 January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 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 (January 1), and become delinquent if unpaid by August 31.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Assets, Liabilities, and Equity (Cont.)

8. Revenue Limit/Property Tax(Cont.):

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.

The California Department of Education reduces the district's entitlement by the district's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The district's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the district is entitled to by law. This amount is multiplied by the second period ADA to derive the district's total entitlement.

9. Pensions:

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pension and pension expense, information about fiduciary net position of the District's retirement plans and additions/subtractions from such plans fiduciary net position have been determined on the same basis as they are reported for by such plans.

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.

10. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Accordingly, actual results could differ from those estimates.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

NOTE 2 - CASH AND INVESTMENTS

Cash in Banks and in Revolving Funds:

Cash balances in banks and in 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 carrying amount of the district's accounts was \$2,575.

Cash in County Treasury:

In accordance with Education Code Section 41001, the district maintains substantially all of its cash with the County Treasury as part of the common investment pool, which is reported at fair market value. The fair market value of cash in the County Treasury is \$2,462,630 as of June 30, 2018. The district is considered to be an involuntary participant in the external investment pool.

Interest is deposited into participating funds, except for the payroll clearing fund, which is credited to the General Fund. The county is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

As of June 30, 2018, the County's investment pool was not rated. There were no investments that were reported at amortized cost. There is no formal regulatory oversight of the pool. The district does not have a formal investment policy that limits its exposure to losses arising from increasing interest rates.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (Cont.)

Cash in County Treasury(Cont.):

A summary of deposits as of June 30, 2018, is as follows:

	<u>Carrying Amount</u>
Deposits:	
Cash in county treasury	\$ 2,466,082
Cash in revolving fund	<u>2,575</u>
	<u>\$ 2,468,657</u>

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The district has no fund deficits.

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

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Certificated salaries	\$ 185,895
Classified salaries	29,508
Books and supplies	969
Cafeteria Fund:	
Classified salaries	8,035
Books and supplies	14,306
Other outgo	4,638
Capital Faacilities Fund:	
Services and other operating expenditures	1,650

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 4 - ACCOUNTS RECEIVABLE

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

	<u>General Fund</u>	<u>Other Major Funds</u>	<u>All Other Governmental Funds</u>	<u>Totals</u>
Federal government:				
Categorical aid programs	\$ 145,127	\$ 0	\$ 101,351	\$ 246,478
State government:				
Categorical aid programs	0	0	7,516	7,516
Revenue limit	0	0	0	0
Lottery	47,832	0	0	47,832
Total state government	<u>47,832</u>	<u>0</u>	<u>7,516</u>	<u>55,348</u>
Local government:				
Interest	9,469	190	0	9,659
Other	54,771	0	10,300	65,071
Total local government	<u>64,240</u>	<u>190</u>	<u>10,300</u>	<u>74,730</u>
Total accounts receivable	<u>\$ 257,199</u>	<u>\$ 190</u>	<u>\$ 119,167</u>	<u>\$ 376,556</u>

NOTE 5 - 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 or proprietary funds are netted as part of the reconciliation to the government- wide financial statements.

Interfund Receivables/Payables (Due From/Due To):

As of June 30, 2018, the General Fund was due \$10,698 from the Cafeteria Fund.

Interfund Transfers:

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers from fiscal year 2017 - 2018 were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Cafeteria Fund	\$ 5,879	\$ 0
General Fund	<u>0</u>	<u>5,879</u>
Total	<u>\$ 5,879</u>	<u>\$ 5,879</u>

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2018, is shown below:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 56,024	\$	\$ 0	\$ 56,024
Work in progress	27,000	177,211		204,211
Total capital assets, not being depreciated	<u>83,024</u>	<u>177,211</u>	<u>0</u>	<u>260,235</u>
Capital assets, being depreciated:				
Buildings	20,841,254	38,730	0	20,879,984
Improvements of sites	1,080,855	0	0	1,080,855
Equipment	1,571,728	193,651		1,765,379
Total capital assets, being depreciated	<u>23,493,837</u>	<u>232,381</u>	<u>0</u>	<u>23,726,218</u>
Less accumulated depreciation for:				
Buildings	6,180,302	393,784	0	6,574,086
Improvements of sites	976,678	18,726	0	995,404
Equipment	1,336,106	69,565		1,405,671
Total accumulated depreciation	<u>8,493,086</u>	<u>482,075</u>	<u>0</u>	<u>8,975,161</u>
Total capital assets, being depreciated, net	<u>15,000,751</u>	<u>(249,694)</u>	<u>0</u>	<u>14,751,057</u>
Governmental activities capital assets, net	<u>\$ 15,083,775</u>	<u>\$ (72,483)</u>	<u>\$ 0</u>	<u>\$ 15,011,292</u>

Depreciation Expense was charged to governmental activities as follows:

Governmental activities:	
Instruction	\$ 421,458
Home-to-school transportation	40,847
Food services	983
All other general administrative	7,533
Plant services	<u>11,254</u>
Total Depreciation Expense	<u>\$ 482,075</u>

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 7 - LONG-TERM DEBT - SCHEDULE OF CHANGES

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due within</u> <u>One Year</u>
General obligation	\$ 17,739,201	\$ 0	\$ 215,000	\$ 17,524,201	\$ 240,000
Accreted interest	3,285,739	908,399	0	4,194,138	0
Net pension liability	10,304,465	1,159,494	0	11,463,959	0
Net OPEB obligation	1,114,260	66,665	0	1,180,925	0
Compensated absence	81,759	0	2,391	79,368	79,368
Total	\$ <u>32,525,424</u>	\$ <u>2,134,558</u>	\$ <u>217,391</u>	\$ <u>34,442,591</u>	\$ <u>319,368</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. The accrued vacation will be paid by the fund for which the employee worked.

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements)

The district is exposed to various risks of loss related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The district manages those risks of loss through participation in public entity risk pools. There have been no significant reductions in insurance coverage from the prior year. For each of the past three years settlements did not exceed insurance coverage.

The McKinleyville Union School District participants in two joint ventures under a joint powers agreement (JPA) with the North Coast School Insurance Group. The relationship between the McKinleyville Union School District and the JPA is such that the JPA is not a component unit of the McKinleyville Union School District for financial reporting purposes.

Each member district pays a premium commensurate with the level of coverage requested. The district is covered under workers' compensation, liability, medical, vision, and dental insurance.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 8 - JOINT VENTURES - (Joint Powers Agreements) (Cont)

Condensed financial information for the year end is as follows:

	JPA	
	June 30, 2017	June 30, 2017
		Medical Dental & Vision Programs
		Property Liability Workers Comp.
Total assets	\$ 5,472,996	\$ 5,910,924
Total liabilities	1,369,495	6,363,822
Total net position	\$ 4,103,501	\$ (452,898)
Total revenues	\$ 6,926,320	\$ 54,821,004
Total expenditures	6,755,566	54,274,843
Net increase (decrease) in net position	\$ 170,754	\$ 546,161

Complete financial statements for the joint ventures can be obtained at the district office.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants:

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the district may incur a liability to grantor agencies.

Self-Insurance:

The district is liable for any losses that exceed the assets of the Joint Powers Authorities.

NOTE 10 - GENERAL OBLIGATION BONDS PAYABLE

On March 17, 2009, the district issued \$7,000,000 of Election of 2008, Series A bonds. The interest rate ranges from 2% to 6% with final maturity at August 1, 2033. As a result of the issuance, the district recorded net proceeds of the \$7,008,649; \$7,000,000 in the Building Fund and \$8,649 in the Debt Service Fund.

On April 29, 2011, the district issued \$6,999,908 of Election of 2008, Series B bonds. The interest rate ranges from 7% to 12% with final maturity at August 1, 2050. As a result of the issuance, the district recorded net proceeds of the \$6,999,908 in the Building Fund .

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 10 - GENERAL OBLIGATION BONDS PAYABLE(Cont.)

In October 2014 and June 2015, the District issued \$7,327,431 and \$6,630,000 General Obligation Refunding Bonds, respectively, with an average interest of 4.25% to advance refund \$9,543,138 of outstanding 2008 Series A and B bonds with average interest rates of 3.3% to 8.4%. The net proceeds were used to purchase U. S. securities to provide for future debt service payments on the 2008 bonds.

As a result, those bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The 2008 Series A and B bonds to be redeemed will remain outstanding until August 1, 2018 and August 1, 2021, respectively, at which time proceeds of the refunding will be used to redeem principal and premium, if any, of the specific maturities to be redeemed. Principal of \$5,935,000 and \$3,608,138 of the 2008 Series A and B bonds, respectively, will be redeemed.

Interest on the bonds is payable semiannually on each February 1 and August 1, commencing from the date of bond issuance. The annual requirements to amortize the bonds outstanding at June 30, 2018, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 240,000	\$ 263,062	\$ 503,062
2020	269,394	371,719	641,113
2021	263,468	426,570	690,038
2022	334,823	541,133	875,956
2023	300,000	498,900	798,900
2024 - 2028	2,245,881	2,879,585	5,125,466
2029 - 2033	3,536,219	3,508,697	7,044,916
2034 - 2038	2,036,996	7,654,723	9,691,719
2039 - 2043	4,611,482	10,644,278	15,255,760
2043 - 2048	3,685,938	15,477,819	19,163,757
2048	0	0	0
Totals	\$ 17,524,201	\$ 42,266,486	\$ 59,790,687

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS LIABILITY

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

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>OPEB Expense</u>
District Plan	\$ 1,180,925	\$ 0	\$ 0	\$ 66,665

The details of the plan are as follows:

District Plan
Plan Administration

The District's governing board administers the Postemployment Benefits Plan (The Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other the pensions (OPEB) for eligible retirees and their spouses.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS LIABILITY(Cont.)

District Plan

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	12
Active employees	90
	102
	102

Benefits Provided

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

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups.

For the fiscal year 2017-2018, the District contributed \$149,051 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB Liability of \$1,180,925 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Investment rate of return	3.8 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.0 percent for 2017

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS LIABILITY(Cont.)

Mortality rates for Certificated were based on the CalSTRS 2009 Mortality Tables and for Classified the 2014 CalPERS Active Morality Tables. Mortality rates vary by age and sex. If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

Changes in the Total OPEB Liability

Balance at June 30, 2017	\$ 1,114,260
Service Cost	113,181
Interest	42,737
Employer contributions	(89,253)
Benefit payments	
Changes of assumptions or other inputs	
Net change in total OPEB liability	
Balance at June 30, 2018	\$ 1,180,925

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.8%)	\$ 1,256,185
Current discount rate (3.8%)	1,180,925
1% increase (4.8%)	1,112,766

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

Total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Discount Rate	Net OPEB Liability
1% decrease (3%)	\$ 1,129,301
Current discount rate (4%)	1,180,925
1% increase (5%)	1,226,734

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$66,665. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to the measurement date of \$-0-.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 12 - OPERATING LEASES - COPIERS

Future payments under the agreements are as follows:

Year Ended June 30	Lease Payments
2019	\$ 26,763
2020	26,763
2021	13,524
2022	1,305
Total future payments	\$ 68,355

NOTE 13- EMPLOYEE RETIREMENT SYSTEMS (CONT.)

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

PERS

Plan Description:

The district contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefit, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

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

	CalPERS	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date	2% @ 55	2% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	10thly for life	10thly for life
Benefit payments	55	62
Retirement age	1.10% to 2.5%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	7.0%	6.5%
Required employee contribution rate	15.531%	15.531%
Required employer contribution rate		

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13- EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Funding Policy:

Active plan members are required to contribute 6-7% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2017-2018 was 15.531%.

The contribution requirements of the plan members are established by state statute. For the fiscal years ending June 30, 2016, 2017, and 2018, the district contributed \$187,924, \$238,924 and \$305,007924 respectively and equal 100% of the required contributions for each year.

STRS

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. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

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

	CalSTRS	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits, as a % of eligible compensation	1.10% to 2.5%	1.16% to 2.5%
Required employee contribution rate	10.250%	9.205%
Required employer contribution rate	14.43%	14.43%

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Funding Policy

Active plan members are required to contribute as shown above of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2017-2018 was 14.43% of annual payroll.

The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal years ending June 30, 2016, 2017 and 2018, were \$515,002 \$596,437 and \$688,261 respectively, and equal 100% of the required contributions for each year.

Pension Liabilities, Expenses, and Deferred Outflows/Inflows

At June 30, 2018, the District reported a net pension liability of \$ 11,463,959 and recognized pension expense of \$2,152,753 consists:

	<u>Net Pension Liability</u>	<u>Pension Expense</u>
California Public Employees' Retirement System(PERS)	\$ 3,220,419	\$ 938,159
State Teachers' Retirement System(STRS)	<u>8,243,540</u>	<u>1,214,594</u>
	<u>\$ 11,463,959</u>	<u>\$ 2,152,753</u>

The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term contributions to the pension plan relative to the projected contributions of all participating Governments. At June 30, 2018, the District's proportion was .013490% for PERS and .008914% for STRS.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Pension Liabilities, Expenses, and Deferred Outflows/Inflows (cont.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
District contributions subsequent to measurement date:		
PERS	\$ 305,007	\$
STRS	688,261	
Net difference between projected and actual earnings on pension plan investments:		
PERS	97,211	
STRS		1,043,663
Difference between expected and actual experience:		
PERS	109,887	
STRS	30,486	157,396
Changes in proportion and differences between District contributions and proportionate share of contributions:		
PERS	186,334	
STRS		790,113
Differences between actual and required contributions:		
PERS		92,824
STRS	413,211	
Changes in assumptions:		
PERS	466,365	34,000
STRS	1,527,190	
	\$ 3,823,952	\$ 2,117,996

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

The fiscal year deferred outflows and inflows of resources related to pensions will be recognized in pension expense(benefit) of (\$33,697), \$329,147, \$129,105, (\$104,957), \$176,325, and \$216,765 for the years ending 2018 - 2023, respectively.

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

	<u>PERS</u>	<u>STRS</u>
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Discount rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll growth	3.00%	3.50%
Salary increases	Varies by Entry Age and Service	
Investment rate of return	7.50%	7.10%
Mortality Rate Table	PERS Membership Data	Industry Standard Adjusted to fit CalSTRS
Post Retirement Benefit	2.00%	2.00%

Discount Rate

The discount rate is used to measure the total pension liabilities based on projection of cash flows. The discount rate of PERS/STRS assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarial rates for employers. Based on these assumptions, the pension's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	PERS			STRS	
	New Strategic Allocation	Real Return Years 1-10	Real Return Years 11+	New Strategic Allocation	Long -Term Average Expected Real Rate of Return
Global Equity	47.00%	4.90%	5.38%	47.00%	6.30%
Global Fixed Income	19.00%	0.80%	2.27%	0.00%	0.00%
Fixed Income	0.00%	0.00%	0.00%	12.00%	0.30%
Inflation Sensitive	6.00%	0.60%	1.39%	4.00%	3.80%
Private Equity	12.00%	6.60%	6.63%	13.00%	9.30%
Real Estate	11.00%	2.80%	5.21%	13.00%	5.20%
Infrastructure and Forest land	3.00%	3.90%	5.36%	0.00%	0.00%
Absolute/Risk Mitigating Strategies	0.00%	0.00%	0.00%	9.00%	2.90%
Liquidity	2.00%	-0.40%	-0.90%	2.00%	-1.00%
Total	100.00%			100.00%	

Detailed information about the fiduciary net position is available in the separately issued PERS and STRS financial reports.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (Cont.)

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 plans, calculated using the discount rate for the plans, 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 higher than the current rate:

PERS

	Discount Rate 6.15%	Current Discount 7.15%	Discount Rate plus 1% 8.15%
Plan's net pension liability	\$ <u>4,738,268</u>	\$ <u>3,220,419</u>	\$ <u>1,961,236</u>

STRS

	Discount Rate 6.1%	Current Discount 7.1%	Discount Rate plus 1% 8.1%
Plan's net pension liability	\$ <u>12,104,264</u>	\$ <u>8,243,540</u>	\$ <u>5,110,461</u>

Special Funding Situation

The State of California is legally responsible for making contributions directly to the STRS Pension Plan on behalf of school districts. This is considered a "special funding situation". The following are required disclosures regarding the special funding situation for the STRS Pension Plan:

State of Californian nonemployer contributing entity's proportionate share of net pension liability associated with the District	\$ 4,876,809
District's proportionate share of net pension liability	<u>8,243,540</u>
Total of State of California and District share of Net Pension Liability	<u><u>13,120,349</u></u>
Revenue recognized in Statement of Activities for support provided by the State of California as a nonemployer contributing entity	<u><u>\$ 396,583</u></u>

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2018

NOTE 14 - CHANGES IN ACCOUNTING STANDARDS

In June 2015, the GASB issued No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions.

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.

The District has implemented the provisions of this Statement as of June 30, 2018.

Also implemented as of June 30, 2018, the GASB issued Statement No. 85, Omnibus 2017, for various pension and postemployment benefits other than pensions issues.

NOTE 15 - FUTURE CHANGES IN ACCOUNTING STANDARDS

The District will evaluate the impact of future pronouncements that may have an effect on its financial statements and will implement them as applicable and when material.

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Statement of Net Position	
Net Position - Beginning	\$ (13,087,298)
Restatement/OPEB	(872,922)
Net Position - Beginning as Restated	\$ <u>(13,960,220)</u>

REQUIRED SUPPLEMENTARY INFORMATION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 9,249,280	\$ 9,306,803	\$ 9,290,746	\$ (16,057)
Federal revenues	592,006	606,418	568,787	(37,631)
Other state revenues	1,009,791	1,322,303	1,347,791	25,488
Other local revenues	703,310	819,432	831,198	11,766
Total revenues	11,554,387	12,054,956	12,038,522	(16,434)
Expenditures:				
Certificated salaries	4,707,302	4,801,223	4,987,118	(185,895)
Classified salaries	1,856,855	1,966,058	1,995,566	(29,508)
Employee benefits	2,700,971	3,092,654	2,890,637	202,017
Books and supplies	391,885	691,418	692,387	(969)
Services and other operating expenditures	1,487,333	1,682,167	1,334,371	347,796
Capital outlay	0	0	0	0
Other outgo	571,858	528,661	513,412	15,249
Total expenditures	11,716,204	12,762,181	12,413,491	348,690
Excess (deficiency) of revenues over (under) expenditures	(161,817)	(707,225)	(374,969)	332,256
Other financing sources (uses):				
Proceeds from bonds	0	0	0	0
Advances refunding	0	0	0	0
Operating transfers out	0	0	(5,879)	(5,879)
Proceeds from capital leases	0	0	0	0
Total other financing sources (uses):	0	0	(5,879)	(5,879)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	(161,817)	(707,225)	(380,848)	326,377
Fund balances, July 1, 2017	2,373,653	2,373,653	2,373,653	0
Fund balances, June 30, 2018	\$ 2,211,836	\$ 1,666,428	\$ 1,992,805	\$ 326,377

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Required Supplementary Information
Other Post-Employment Benefits
Year Ended June 30, 2018

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

	2018
Total OPEB Liability	
Service Cost	\$ 113,181
Interest	42,737
Change of benefit terms	
Employer contributions	(89,253)
Changes of assumptions	
Benefit payments	
Net change in total OPEB liability	<u>66,665</u>
Total OPEB Liability - beginning	1,114,260
Total OPEB Liability - ending	<u>\$ 1,180,925</u>

Schedule of District Contributions for OPEB

	2018
Actuarially determined contribution	\$ 155,918
Contributions in relation to the actuarially determined contribution	<u>149,051</u>
Contribution deficiency (excess)	<u>\$ 6,867</u>
Covered employee payroll	\$ 5,740,352
Contribution as a percentage of covered employee payroll	<u>2.60%</u>

Notes to schedules:

In the future, as data becomes available, ten years of information will be presented.
There were no changes in benefit terms.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Required Supplementary Information
Schedule of Required Pension Contributions
PERS
Year Ended June 30, 2018

	<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>
Contractually required contribution \$	155,877	\$	188,079	\$	238,923	\$	305,007
Contributions made	<u>155,877</u>		<u>188,079</u>		<u>238,923</u>		<u>305,007</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$	\$ <u>0</u>	\$	\$ <u>0</u>	\$	\$ <u>0</u>
Districts covered -employee payroll \$	1,324,000	\$	1,588,000	\$	1,720,364	\$	1,966,937
Contributions as a percentage of covered-employee payroll	11.77%		11.84%		13.89%		15.51%

NOTES TO SCHEDULE

Actuarial valuation date June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age normal cost
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years
Asset valuation method	Smoothed value
Inflation	2.75%
Salary increases	3.00%
Investment rate of return	7.50% net of pension plan investment expense
Retirement age	60 years
Mortality	PERS Mortality Experience Study

For 2015 the Investment rate of return was 7.50%.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Required Supplementary Information
Schedule of Required Pension Contributions
STRS
Year Ended June 30, 2018

	2015	2016	2017	2018
Contractually required contribution \$	412,495 \$	635,236 \$	596,437 \$	688,261
Contributions made	412,495	635,236	596,437	688,261
Contribution deficiency (excess) \$	0 \$	0 \$	0 \$	0
 Districts covered -employee payroll \$	 4,645,000 \$	 5,920,000 \$	 4,741,151 \$	 4,773,414
Contributions as a percentage of covered-employee payroll	8.88%	10.73%	12.58%	14.42%

NOTES TO SCHEDULE

Actuarial valuation date June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age normal cost
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Smoothed value
Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.10% net of pension plan investment expense
Retirement age	60 years
Mortality	STRS Mortality Experience Study

MCKINLEYVILLE UNION SCHOOL DISTRICT
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability
PERS
Year Ended June 30, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability	0.021%	0.026%	0.030%
District's proportionate share of the net pension liability	\$ 1,325,000	\$ 1,763,000	2,587,258
District's covered-employee payroll	\$ 1,324,000	\$ 1,588,000	1,720,364
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	100.08%	111.02%	150.39%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	
	<u>2018</u>		
District's proportion of the net pension liability	0.013490%		
District's proportionate share of the net pension liability	\$ 3,220,419		
District's covered-employee payroll	\$ 1,966,937		
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	163.73%		
Plan fiduciary net position as a percentage of the total pension liability	71.87%		

NOTES TO SCHEDULE

There were no benefit changes to benefit terms or changes in assumptions other than discount rate from 7.50% in 2005 to 7.65% in 2016.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability
STRS
Year Ended June 30, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability	0.088%	0.101%	0.089%
District's proportionate share of the net pension liability	\$ 5,661,000	\$ 6,738,000	\$ 7,717,207
State's proportionate share of the net pension liability (asset) associated with District	<u>3,418,000</u>	<u>3,564,000</u>	<u>4,393,269</u>
Total	\$ <u>9,079,000</u>	\$ <u>10,302,000</u>	\$ <u>12,110,476</u>
District's covered-employee payroll	\$ 4,645,000	\$ 5,920,000	\$ 4,741,151
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	121.87%	113.82%	162.77%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

	<u>2018</u>
District's proportion of the net pension liability	0.008914%
District's proportionate share of the net pension liability	\$ 8,243,540
State's proportionate share of the net pension liability (asset) associated with District	<u>4,876,809</u>
Total	\$ <u>13,120,349</u>
District's covered-employee payroll	\$ 4,907,091
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	167.99%
Plan fiduciary net position as a percentage of the total pension liability	0.69.46

NOTES TO SCHEDULE

There were no benefit changes to benefit terms or changes in assumptions

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to Required Supplementary Information
Year Ended June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

A. Budgetary Comparison Schedule

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

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

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

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

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations.

C. Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to Required Supplementary Information
Year Ended June 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES (Cont.)

D. Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

E. Schedule of District Pension Contributions

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

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

SUPPLEMENTARY INFORMATION SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Building Fund
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive- (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	0	3	0	(3)
Total revenues	<u>0</u>	<u>3</u>	<u>0</u>	<u>(3)</u>
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	0	0	0
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	<u>0</u>	<u>3</u>	<u>0</u>	<u>(3)</u>
Other financing sources (uses):				
Operating transfers out	0	0	0	0
Operating transfers in	0	0	0	0
Total other financing sources (uses):	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	0	3	0	(3)
Fund balances, July 1, 2017	<u>272,211</u>	<u>272,211</u>	<u>272,211</u>	<u>0</u>
Fund balances, June 30, 2018	<u>\$ 272,211</u>	<u>\$ 272,214</u>	<u>\$ 272,211</u>	<u>\$ (3)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Capital Outlay Reserve
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Positive- (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	115	150	231	81
Total revenues	<u>115</u>	<u>150</u>	<u>231</u>	<u>81</u>
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	0	0	0
Services and other operating expenditures	0	0	0	0
Capital outlay	0	0	0	0
Other outgo	0	0	0	0
Total expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures	<u>115</u>	<u>150</u>	<u>231</u>	<u>81</u>
Other financing sources (uses):				
Operating transfers out	0	0	0	0
Operating transfers in	0	0	0	0
Uses	0	0	0	0
Total other financing sources (uses):	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>115</u>	<u>150</u>	<u>231</u>	<u>81</u>
Fund balances, July 1, 2017	<u>16,263</u>	<u>16,263</u>	<u>16,263</u>	<u>0</u>
Fund balances, June 30, 2018	<u>\$ 16,378</u>	<u>\$ 16,413</u>	<u>\$ 16,494</u>	<u>\$ 81</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Revenues, Expenditures, and Changes in Fund
Balances - Budget and Actual (GAAP)
Capital Facilities Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive- (Negative)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 0	\$ 0	\$ 0	\$ 0
Federal revenues	0	0	0	0
Other state revenues	0	0	0	0
Other local revenues	<u>50,300</u>	<u>51,406</u>	<u>63,882</u>	<u>12,476</u>
Total revenues	<u>50,300</u>	<u>51,406</u>	<u>63,882</u>	<u>12,476</u>
Expenditures:				
Certificated salaries	0	0	0	0
Classified salaries	0	0	0	0
Employee benefits	0	0	0	0
Books and supplies	0	36,385	36,384	1
Services and other operating expenditures	50,000	54,419	56,069	(1,650)
Capital outlay	0	0	0	0
Other outgo	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>50,000</u>	<u>90,804</u>	<u>92,453</u>	<u>(1,649)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>300</u>	<u>(39,398)</u>	<u>(28,571)</u>	<u>10,827</u>
Other financing sources (uses):				
All other financing sources	0	0	0	0
Operating transfers out	0	0	0	0
Operating transfers in	0	126,127	0	(126,127)
Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses):	<u>0</u>	<u>126,127</u>	<u>0</u>	<u>(126,127)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>300</u>	<u>86,729</u>	<u>(28,571)</u>	<u>(115,300)</u>
Fund balances, July 1, 2017	<u>97,531</u>	<u>97,531</u>	<u>97,531</u>	<u>0</u>
Fund balances, June 30, 2018	<u>\$ 97,831</u>	<u>\$ 184,260</u>	<u>\$ 68,960</u>	<u>\$ (115,300)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018

ASSETS	<u>Cafeteria Fund</u>
Cash in county treasury	\$ 0
Cash in revolving fund	75
Accounts receivable	119,167
Due from other funds	0
Stores inventories	<u>2,689</u>
Total assets	<u>121,931</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	848
Due to other funds	10,698
Unearned income	<u>10,942</u>
Total liabilities	<u>22,488</u>
 Fund balances:	
Nonspendable: stores inventories	2,689
Restricted: food service	<u>96,754</u>
Total fund balances	<u>99,443</u>
Total liabilities and fund balances	<u>\$ 121,931</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds (By Object)
June 30, 2018

	<u>Cafeteria Fund</u>
Revenues:	
Revenue limit sources:	
State apportionments	\$ 0
Local sources	0
Federal revenues	377,881
Other state revenues	28,574
Other local revenues	165,392
Total revenues	<u>571,847</u>
Expenditures:	
Certificated salaries	0
Classified salaries	242,829
Employee benefits	117,400
Books & supplies	188,744
Services and other operating expenditures	30,950
Capital outlay	0
Other outgo	27,287
Debt Service:	
Principal	0
Interest	0
Total expenditures	<u>607,210</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(35,363)</u>
Other financing sources (uses):	
Operating transfers in	5,879
Operating transfers (out)	0
Total other financing sources (uses)	<u>5,879</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>(29,484)</u>
Fund balances, July 1, 2017	<u>128,927</u>
Fund balances, June 30, 2018	<u>\$ 99,443</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Funds (By Object)
Year Ended June 30, 2018

	Cafeteria Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Revenue limit sources:			
State apportionments	\$ 0	\$ 0	\$ 0
Local sources	0	0	0
Federal revenues	366,232	377,881	11,649
Other state revenues	28,091	28,574	483
Other local revenues	163,940	165,392	1,452
Total revenues	<u>558,263</u>	<u>571,847</u>	<u>13,584</u>
Expenditures:			
Certificated salaries			
Classified salaries	234,794	242,829	(8,035)
Employee benefits	119,426	117,400	2,026
Books & supplies	174,438	188,744	(14,306)
Services and other operating expenditures	34,311	30,950	3,361
Capital outlay	0	0	0
Other outgo	22,649	27,287	(4,638)
Debt Service:			
Principal	0	0	0
Interest	0	0	0
Total expenditures	<u>585,618</u>	<u>607,210</u>	<u>(21,592)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(27,355)</u>	<u>(35,363)</u>	<u>(8,008)</u>
Other financing sources (uses):			
Operating transfers in	0	5,879	5,879
Operating transfers out	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>5,879</u>	<u>5,879</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other (uses)	<u>(27,355)</u>	<u>(29,484)</u>	<u>(2,129)</u>
Fund balances, July 1, 2017	<u>128,927</u>	<u>128,927</u>	<u>0</u>
Fund balances, June 30, 2018	<u>\$ 101,572</u>	<u>\$ 99,443</u>	<u>\$ (2,129)</u>

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

MCKINLEYVILLE UNION SCHOOL DISTRICT
Organization
County of Humboldt, McKinleyville, California
June 30, 2018

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Nicholas Som	Clerk	2020
Alvin Sager	Member	2018
Sara Alto	Representative	2020
Theresa Grosjean	President	2018
Suzie McCray (Resigned (6-11-18))	Member	2018

ADMINISTRATION

DISTRICT SUPERINTENDENT

Jan Schmidt

BUSINESS DIRECTOR

Jeff Brock

The McKinleyville Union School District was established in 1950 and is located in Humboldt County, California. The district operates two elementary schools and one middle school. There were no changes in the boundaries of the district during the current year.

The district has no Charter Schools.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2018

	Second Period Report	Annual Report
Elementary:		
Transitional Kindergarten and Grade 3		
Regular	497.11	496.48
Extended Year Special Education	0.46	0.46
Grades 4 through 6		
Regular	349.91	347.92
Extended Year Special Education	0.42	0.42
Special Education - Nonpublic, Nonsectarian	0.73	0.73
Extended Year Special Education - Nonpublic, Nonsectarian	0.36	0.36
Grades 7 through 8		
Regular	239.30	238.11
Extended Year Special Education	0.30	0.30
Totals	1,088.59	1,084.78

	Hours of Attendance
<u>Summer School - Hours of Attendance</u>	
Elementary	0

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2018

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<u>DOWS PRAIRIE SCHOOL</u>				
Kindergarten	36,000	56,800	180	Complied
Grade 1	50,400	50,500	180	Complied
Grade 2	50,400	50,500	180	Complied
<u>MORRIS SCHOOL</u>				
Grade 3	50,400	52,430	180	Complied
Grade 4	54,000	54,380	180	Complied
Grade 5	54,000	54,380	180	Complied
<u>MCKINLEYVILLE MIDDLE SCHOOL</u>				
Grade 6	54,000	59,650	180	Complied
Grade 7	54,000	59,650	180	Complied
Grade 8	54,000	59,650	180	Complied

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2018

<u>General Fund</u>	<u>(Budget)</u> <u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues and other financial sources	\$ 12,535,590	\$ 12,038,522	\$ 11,271,865	\$ 11,316,698
Expenditures	12,190,395	12,413,491	11,477,771	10,783,615
Other uses and transfers out		5,879	4,574	2,504
Total outgo	<u>12,190,395</u>	<u>12,419,370</u>	<u>11,482,345</u>	<u>10,786,119</u>
Change in fund balance	<u>345,195</u>	<u>(380,848)</u>	<u>(210,480)</u>	<u>530,579</u>
Ending fund balance	\$ <u>2,338,000</u>	\$ <u>1,992,805</u>	\$ <u>2,373,653</u>	\$ <u>2,584,133</u>
Available reserves	\$ <u>1,046,884</u>	\$ <u>1,034,786</u>	\$ <u>1,021,286</u>	\$ <u>1,009,508</u>
Available reserves as a percentage of total outgo	8.59 %	8.33 %	8.89 %	9.36 %
Total long-term debt	\$ 34,123,223	\$ 34,442,591	\$ 31,652,502	\$ 29,142,541
Average daily attendance at P-2	1,089	1,089	1,086	1,088

For a district this size, the state recommends available minimum reserves of at least 3% of General Fund (Special Reserve) total outgo.

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
<u>U.S. Department of Education</u>			
<u>Passed Through California State Department of Education:</u>			
Title 1 Grants to Local Education Agencies	84.010	14329	\$ 276,973
Special Education - Grants to States	84.027	13379	233,574
Supporting Effective Instruction State Grants	84.367	14341	43,209
			553,756
<u>U.S. Department of Agriculture - Food and Nutrition</u>			
<u>Passed Through California State Department of Education:</u>			
Child Nutrition Cluster			
National School Lunch Program	10.555	11396	293,885
School Breakfast Program	10.553	03157	74,044
Total Child Nutrition Cluster			367,929
Federal Snack Program	10.558	23165	9,953
			377,882
<u>U.S. Department of Health and Human Services</u>			
<u>Passed Through California State Department of Education:</u>			
Medical Assistance Program	93.778	10013	15,030
Total Head Start Cluster			15,030
TOTAL FEDERAL PROGRAMS			\$ 946,668

See the accompanying notes to supplementary information and notes to schedule of expenditures of federal awards.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McKinleyville Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the (general-purpose or basic) financial statements.

The district has not elected to use the 10 percent de minimis indirect cost rate.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report
(J-200) with Audited Financial Statements
Year Ended June 30, 2018

There were no differences between the Annual Financial and Budget Report and the Audited Financial Statements.

See the accompanying notes to supplementary information.

MCKINLEYVILLE UNION SCHOOL DISTRICT
Notes to Supplementary Information
Year Ended June 30, 2018

NOTE 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 apportionment of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade spans and in different programs.

B. 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 and the total liabilities balance of the general long-term debt account group as reported on the Form J-200 (budgetary basis) to the audited financial statements (GAAP basis).

C. 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.

D. Schedule of Instructional Time

Districts must maintain their instructional minutes as required by Education Code Sections 46201 through 46207.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The district did not meet its local control funding formula target funding. This schedule presents information on the amount of instructional time offered by the district and whether the district complied with the provisions of Education Code Sections 46201 through 46207.

OTHER INDEPENDENT AUDITOR'S REPORTS

May, Abrahamsen & Barsanti

William C. May
Tom Abrahamsen
Shel Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
Fax: (707) 839-9445

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
McKinleyville Union School District
McKinleyville, Humboldt County, 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 McKinleyville Union School District, as of and for the year ended June 30, 2018, which collectively comprise Arcata School District's basic financial statements and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McKinleyville Union School District's financial statements are free of 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 test 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.

May, Abrahamsen & Barsanti

**December 17, 2018
McKinleyville, California**

May, Abrahamsen & Barsanti

William C. May
Tom Abrahamsen
Shel Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

3103 Concorde Drive
McKinleyville, CA 95519
Phone: (707) 839-9444
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

May, Abrahamson & Barsanti

**December 17, 2018
McKinleyville, California**

May, Abrahamsen & Barsanti

CERTIFIED PUBLIC ACCOUNTANTS

William C. May
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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Board of Trustees
McKinleyville Union School District
McKinleyville, Humboldt County, California**

Report on State Compliance

We have audited McKinleyville Union School District's compliance with the types of compliance requirements described in the 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of McKinleyville Union School District's state programs for the fiscal year ended June 30, 2018, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McKinleyville Union School District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs identified below occurred. An audit includes examining, on a test basis, evidence about Arcata School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of McKinleyville Union School District's compliance with those requirements.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine the district's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship:Related and Supplemental Instruction	N/A
Educator Effectiveness	Yes
California Clean Energy Jobs Act	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 Accountability Plan	Yes
Independent Study-Course Based	N/A
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study	N/A
Determination of Funding for Nonclassroom-Based Instruction For Charter Schools	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform any procedures relating to Independent Study as the ADA for Independent Study was below the level which requires testing.

We did not perform any procedures regarding Continuation Education as the District does not offer this program.

We did not perform procedures related to Early Retirement Incentive as there was none.

We did not perform any procedures related to Juvenile Court Schools as the District does not offer this program.

We did not perform any procedures related to Middle or Early College High Schools as the District does not offer this program.

We did not perform any procedures related to Apprenticeship:Related and Supplemental Instruction as the District does not offer this program.

We did not perform any procedures related to the After School Education and Safety Program as the District does not receive funding for this program.

We did not perform any procedures related to Independent Study-Course Based as the District does not offer the program.

We did not perform any procedures relating to charter schools as the District does not have any charter schools.

Opinion on State Compliance

In our opinion, McKinleyville Union School District, complied, in all material respects, with the compliance requirements referred to above that are applicable to the state programs noted in the table above for the year ended June 30, 2018.

May, Abrahamsen & Barsanti

**December 17, 2018
McKinleyville, California**

FINDINGS AND RECOMMENDATIONS SECTION

MCKINLEYVILLE UNION SCHOOL DISTRICT
Findings and Recommendations
Year Ended June 30, 2018

Current Year Findings and Recommendations

There were no current findings and recommendations.

**MCKINLEYVILLE UNION SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018**

Finding/Recommendation	Current Status	Explanation if Not Fully Implemented
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There were no prior year findings nor recommendations.

APPENDIX C

The following information concerning the County of Humboldt (the “County”) is included only for the purpose of supplying general information regarding the area of the District. The Certificates are not a debt of the County, the State or any of its political subdivisions (other than the District), and neither the County, the State nor any of its political subdivisions (other than the District) is liable therefor.

General

The County. The County is the largest and most populous of the north coast counties. The County was created from the western portion of Trinity County in 1853. The County’s name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County’s 3,600 square miles are known for their rural beauty, roughly 80% of which is designated recreation areas and timber land. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

Population

The following table lists population figures for the County and major cities in the County for the last five completed calendar years.

COUNTY OF HUMBOLDT Population Estimates 2015 through 2019

<u>Area</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Arcata	17,860	17,952	18,118	18,054	18,078
Blue Lake	1,262	1,271	1,276	1,253	1,243
Eureka	27,178	27,170	27,301	27,195	26,977
Ferndale	1,364	1,360	1,366	1,344	1,335
Fortuna	12,020	12,042	12,092	12,144	12,084
Rio Dell	3,341	3,344	3,365	3,351	3,326
Trinidad	359	359	362	363	360
Unincorporated	72,051	72,168	72,682	72,380	71,930
County Total	135,435	135,666	136,562	136,084	135,333

Source: State Department of Finance estimates.

Employment and Industry

The table below lists employment by industry group for Humboldt County for the past five years for which data is available.

**HUMBOLDT COUNTY
Annual Average Labor Force
Employment by Industry Group
March 2018 Benchmark**

	2014	2015	2016	2017	2018
Civilian Labor Force	62,400	62,300	62,500	62,600	63,000
Employment	58,200	58,900	59,400	60,000	60,800
Unemployment	4,100	3,500	3,100	2,600	2,200
Unemployment Rate	6.7%	5.6%	4.9%	4.2%	3.6%
<u>Wage and Salary Employment:</u> ⁽¹⁾	800	900	900	900	900
Agriculture	300	300	300	400	400
Mining and Logging	1,600	1,800	1,800	2,000	2,100
Construction	2,100	2,000	2,100	2,000	2,100
Manufacturing	1,000	900	1,000	1,000	1,000
Wholesale Trade	7,000	7,200	7,400	7,500	7,300
Retail Trade	1,300	1,200	1,200	1,200	1,200
Trans., Warehousing, Utilities	500	500	400	400	400
Information	1,600	1,600	1,700	1,700	1,800
Financial Activities	2,600	2,700	2,800	2,900	3,300
Professional and Business Services	8,000	8,100	8,500	8,800	9,000
Educational and Health Services	5,300	5,600	5,800	5,800	5,800
Leisure and Hospitality	1,900	1,900	1,800	1,900	2,000
Other Services	700	800	800	800	700
Federal Government	3,400	3,500	3,500	3,400	3,500
State Government	9,600	9,700	9,900	10,100	10,200
Local Government	800	900	900	900	900
Total All Industries ⁽²⁾	47,700	48,700	49,700	50,700	51,400

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) May not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The table below lists the major employers in the County as of August 2019, listed alphabetically.

COUNTY OF HUMBOLDT Major Employers (Listed Alphabetically) August 2019

Employer Name	Location	Industry
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino & Hotel	Blue Lake	Casinos
Costco Wholesale	Eureka	Wholesale Clubs
Eureka City Clerk	Eureka	Government Offices-City, Village, & Twp
Eureka High School	Eureka	Schools
Green Diamond Resource Co	Korbel	Foresters-Consulting
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Dept-Pubc Hlth	Eureka	Government Offices-County
Humboldt County Mental Health	Eureka	Hospitals
Humboldt County Office of Educ	Eureka	County Government-Education Programs
Humboldt County Sheriff Dept	Eureka	Government Offices-County
Mad River Community Hospital	Arcata	Hospitals
Newmarket International Inc	Eureka	Hospitality Training
Pacific Seafood Inc.	Eureka	Prepared Fish & Seafood Products (mfrs)
Redwood Memorial Hospital	Fortuna	Hospitals
Schmidbauer Lumber Inc	Eureka	Logging (mfrs)
St. Joseph Health	Eureka	Hospitals
St. Joseph Hospital-Admin	Eureka	Health Services
Sun Valley Group	Arcata	Greenhouses
Target	Eureka	Department Stores
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
US Post Office	Eureka	Post Offices
Walmart	Eureka	Department Stores
Winco Foods	Eureka	Grocers - Retail

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

Median Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County of Humboldt, the State and the United States for the period 2015 through 2019.

**COUNTY OF HUMBOLDT
STATE OF CALIFORNIA, AND THE UNITED STATES
Effective Buying Income
2015 through 2019**

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2015	Humboldt County	\$2,743,460	\$38,451
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2016	Humboldt County	\$2,795,240	\$39,485
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	Humboldt County	\$2,782,122	\$38,408
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	Humboldt County	\$3,035,162	\$39,991
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	Humboldt County	\$3,158,777	\$42,028
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019.

Construction Activity

Provided below are the building permits and valuations for the City and County for calendar years 2014 through 2018.

COUNTY OF HUMBOLDT New Construction (Dollars in Thousands)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$24,382.2	\$25,200.1	\$29,132.3	\$32,530.7	\$32,487.9
New Multi-family	5,381.8	3,255.8	2,435.3	4,786.7	5,897.3
Res. Alterations/Additions	<u>13,773.6</u>	<u>11,341.3</u>	<u>15,845.1</u>	<u>9,875.0</u>	<u>12,986.8</u>
Total Residential	43,537.6	39,797.2	47,403.7	47,192.4	51,372.0
New Commercial	24,225.9	8,002.5	18,732.4	13,628.3	17,416.5
New Industrial	2,924.9	2,534.1	2,302.2	211.7	2,129.2
New Other	5,204.1	1,911.2	1,275.5	2,042.7	3,906.4
Com. Alterations/Additions	<u>14,798.7</u>	<u>48,406.3</u>	<u>10,807.6</u>	<u>17,727.2</u>	<u>20,991.8</u>
Total Nonresidential	47,153.6	60,854.1	33,117.7	33,609.9	44,443.9
<u>New Dwelling Units</u>					
Single Family	148	133	155	151	153
Multiple Family	<u>71</u>	<u>22</u>	<u>52</u>	<u>76</u>	<u>127</u>
TOTAL	219	155	207	227	280

Source: Construction Industry Research Board, Building Permit Summary.

Commercial Activity

Summaries of historic taxable sales within the County during the past five years in which data is available are shown in the following tables. Annual figures are not yet available for calendar year 2018.

During the first quarter of calendar year 2018, total taxable transactions in the County were reported to be \$447,540,029, representing a 6.90% decrease over the total taxable transactions of \$480,707,074 that were reported in the County during the first quarter of calendar year 2017.

COUNTY OF HUMBOLDT Taxable Transactions (Dollars in Thousands)

Year	Retail Permits on July 1	Retail Stores Taxable Transactions	Total Permits on July 1	Total Outlets Taxable Transactions
2013	3,343	\$1,370,743	4,600	\$1,869,677
2014	3,440	1,412,669	4,706	1,899,619
2015 ⁽¹⁾	1,964	1,474,165	5,253	1,985,209
2016	3,325	1,589,169	5,527	2,128,331
2017	3,315	1,597,882	5,745	2,183,638

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Board of Trustees
McKinleyville Union School District
2275 Central Avenue
McKinleyville, CA 95519

OPINION: \$_____ McKinleyville Union School District
 2019 General Obligation Refunding Bonds (Federally Taxable)

Members of the Board of Trustees:

We have acted as bond counsel to the McKinleyville Union School District (the "District") in connection with the issuance by the Board of Trustees of the District (the "Board") of its \$_____ principal amount of McKinleyville Union School District (Humboldt County, California) 2019 General Obligation Refunding Bonds (the "Bonds"). The Bonds have been authorized to be issued under the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53550 of said Code (the "Bond Law"), and a resolution of the Board of Trustees of the District (the "Board") adopted on August 14, 2019 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Bond Resolution and in the certified proceedings and other certifications furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is duly created and validly existing as a school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution and the Bonds.

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

3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Humboldt is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates).

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
MCKINLEYVILLE UNION SCHOOL DISTRICT
(Humboldt County, California)
2019 General Obligation Refunding Bonds
(Federally Taxable)

Continuing Disclosure Certificate

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the McKinleyville Union School District (the "District") in connection with the issuance of \$_____ aggregate principal amount of McKinleyville Union School District (Humboldt County, California) 2019 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued under a resolution adopted by the Board of Trustees of the District on August 14, 2019 (the "Bond Resolution"). U.S. Bank National Association, is initially acting as paying agent for the Bonds (the "**Paying Agent**"). 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 Exchange Commission Rule 15c2-12(b)(5).

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

"*Annual Report*" means any Annual Report provided by the District under and as described in Sections 3 and 4.

"*Annual Report Date*" means the date that is nine months after the end of the District's fiscal year (currently March 31 based on the District's fiscal year end of June 30).

"*Dissemination Agent*" means initially Isom Advisors, a Division of Urban Futures, Inc., or any other third party Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a).

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Participating Underwriter*" means Raymond James & Associates, Inc., the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

“*Paying Agent*” means U.S. Bank National Association, or any successor thereto.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing no later than March 31, 2020 with the report for the 2018-19 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if 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(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide in a timely manner (or cause the Dissemination Agent to provide in a timely manner) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) in a timely manner to the MSRB, in an electronic format as prescribed by the MSRB, a notice of failure to file.

(c) With respect to the Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements 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 Annual Report Date, 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.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the District for the preceding fiscal year or, if available, the current fiscal year if available at the time of filing the Annual Report, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) the District's adopted Budget;
- (ii) assessed value of taxable property in the jurisdiction of the District as shown on the recent equalized assessment roll;
- (iii) changes, if any, in the operation of Humboldt County's Teeter Plan affecting the District;
- (iv) changes, if any, in the operation of Humboldt County Investment Pool which would affect the District's access to property taxes used to pay debt service on the Bonds;
- (v) property tax collection delinquencies for any part of the secured roll that is not subject to Humboldt County's Teeter Plan; and
- (vi) top ten property owners in the jurisdiction of the District, as measured by secured assessed valuation, the amount of their respective taxable value, and their percentage of total secured assessed value.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) 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 are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.

- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) 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, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.
- (16) 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) Whenever the District obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6) (other than adverse tax opinions with respect to the tax status of the Bonds or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a notice of Proposed Issuance (IRS Form 5701 TEB) with respect to the Bonds), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) or (a)(15) above, the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds.

(c) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above 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 United States 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 governing 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.

(e) For purposes of Section 5(a)(15) and (16), “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule, and the issuer thereof has entered into a continuing disclosure undertaking for such municipal securities.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Isom Advisors, a Division of Urban Futures, Inc. Any Dissemination Agent may resign by providing 30 days’ written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision hereof, 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(a), 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 type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended under the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 9. Additional Information. Nothing in this Disclosure Certificate prevents 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 Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. If the District fails 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 Bond 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, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2019

MCKINLEYVILLE UNION SCHOOL DISTRICT

By: _____
Superintendent

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APPENDIX F

DTC AND THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Refunding Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Refunding Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Refunding Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Refunding Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Refunding Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. 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.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (in this Appendix, the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment 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 the notices be provided directly to them.

6. Redemption notices will 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.

7. Neither DTC nor Cede & Co. (nor such 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 District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting

rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to District or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that District believes to be reliable, but District takes no responsibility for the accuracy thereof.

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APPENDIX G
TABLE OF ACCRETED VALUES