

*In the opinion of Dannis Woliver Kelley, Bond Counsel to the District, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Bonds with certain covenants contained in the Resolution authorizing the Bonds and subject to the matters set forth under “TAX MATTERS” herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and will not be included in computing the alternative minimum taxable income of the owners thereof. The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code. See “TAX MATTERS” and “BANK QUALIFICATION” herein.*



**\$3,096,436.00**  
**PACIFIC UNION SCHOOL DISTRICT**  
**(Humboldt County, California)**  
**GENERAL OBLIGATION BONDS**  
**2018 ELECTION, 2020 SERIES B**  
**(Bank Qualified)**

**Dated: Date of Delivery**

The Pacific Union School District (the “District”) General Obligation Bonds, 2018 Election, 2020 Series B (the “Bonds”) are being issued to finance the acquisition, construction, furnishing and equipping of District facilities and to pay certain costs of issuance associated therewith, as more fully described herein under the caption “THE PROJECTS.” The Bonds were authorized at an election within the District held on June 5, 2018 (the “Election”) at which at least fifty-five percent of the registered voters voting on the proposition voted to authorize the issuance and sale of \$5,600,000 aggregate principal amount of general obligation bonds of the District (the “Authorization”). The Bonds are intended to be the second and final series of general obligation bonds issued pursuant to the Authorization and are issued on a parity basis with all other outstanding general obligation bonds of the District.

The Bonds will be issued as current interest bonds (the “Current Interest Bonds”) and capital appreciation bonds (the “Capital Appreciation Bonds”). The Current Interest Bonds bear interest on February 1 and August 1 of each year, commencing August 1, 2020. The Capital Appreciation Bonds accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2020. See “THE BONDS” herein.

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

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

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

Concurrently with the issuance of the Bonds, BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of (or, in the case of Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due as set forth in the form of the Policy included as an Appendix to this Official Statement. See “BOND INSURANCE” herein and APPENDIX G – “Specimen Municipal Bond Insurance Policy” hereto.



**MATURITY SCHEDULE**  
**On Inside Cover**

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

*The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Dannis Woliver Kelley, Long Beach, California, Bond Counsel, and certain other conditions. Dannis Woliver Kelley, Long Beach, California, is acting as Disclosure Counsel for the issue. Certain matters will be passed upon for the Underwriter by its counsel Jones Hall, a Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about April 9, 2020.*



**D | A | DAVIDSON**  
D.A. Davidson & Co. member SIPC

## MATURITY SCHEDULE

**\$3,096,436.00**

**Pacific Union School District  
(Humboldt County, California)**

**General Obligation Bonds, 2018 Election, 2020 Series B**

### **\$2,275,000.00 Current Interest Bonds**

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>1</sup> (69502P)</u>
2021	\$100,000	2.000%	1.750%	AQ5

\$485,000 5.000% Term Bonds Due August 1, 2047, Yield 2.600% \* CUSIP<sup>1</sup> AT9

\$655,000 5.000% Term Bonds Due August 1, 2049, Yield 2.650% \* CUSIP<sup>1</sup> AU6

\$1,035,000 4.000% Term Bonds Due August 1, 2051, Yield 3.000% \* CUSIP<sup>1</sup> AV4

### **\$821,436.00 Capital Appreciation Bonds**

\$277,236 Initial Principal Amount 3.000% Term Bonds Due August 1, 2032, Maturity Value \$400,000  
CUSIP<sup>1</sup> 69502P AR3

\$544,200 Initial Principal Amount 3.450% Term Bonds Due August 1, 2044, Maturity Value \$1,250,000  
CUSIP<sup>1</sup> 69502P AS1

<sup>1</sup> Copyright 2020, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference only. Neither the District nor the Underwriter take any responsibility for the accuracy of such CUSIP number.

\* Yield to par call date of August 1, 2027.

**PACIFIC UNION SCHOOL DISTRICT  
(Humboldt County, California)**

**District Board of Trustees**

Jason Barr, *President*  
Ted Weller, *Clerk*  
Karan Collenberg, *Member*  
Christopher Emmons, *Member*  
Fred Hanks, Jr., *Member*

**District Administrators**

Rene McBride, *Superintendent/Principal*  
Marci Laffranchi, *Business Manager*

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Dannis Woliver Kelley  
*Long Beach, California*

**Financial Advisor**

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

**Paying Agent, Transfer Agent, and Registration Agent**

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

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

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

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

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

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN SECURITIES DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and APPENDIX G – "Specimen Municipal Bond Insurance Policy." This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

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

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

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
Events Subsequent to Preliminary Official Statement.....	1
General .....	1
Registration .....	1
The District.....	2
Sources of Payment for the Bonds .....	2
Bond Insurance.....	2
Authority for Issuance .....	2
Redemption .....	2
Tax Matters .....	2
Bank Qualified .....	3
Continuing Disclosure.....	3
Closing Date.....	3
THE BONDS.....	3
Authority for Issuance .....	3
Purpose of Issue .....	3
Description of the Bonds .....	3
Payment of the Bonds.....	4
Redemption .....	5
Selection of Bonds for Redemption .....	7
Notice of Redemption .....	7
Right to Rescind Notice of Redemption.....	7
Effect of Notice of Redemption .....	8
Transfer and Exchange.....	8
Defeasance .....	8
Book-Entry Only System .....	9
Continuing Disclosure Agreement .....	9
SOURCES AND USES OF FUNDS.....	9
ANNUAL DEBT SERVICE SCHEDULES .....	10
SECURITY FOR THE BONDS.....	12
General .....	12
Property Taxation System .....	12
Restrictions on use of <i>Ad Valorem</i> Taxes and Statutory Lien on Debt Service.....	12
Pledge of Tax Revenues .....	13
BOND INSURANCE .....	13
Bond Insurance Policy.....	13
The Bond Insurer.....	13
THE PROJECTS .....	15
TAX BASE FOR REPAYMENT OF THE BONDS .....	15
<i>Ad Valorem</i> Property Taxation.....	15
Assessed Valuations .....	16
Appeals and Adjustments of Assessed Valuations .....	17
Tax Rates.....	22
No Teeter Plan.....	22
Direct and Overlapping Debt .....	23
DISTRICT FINANCIAL INFORMATION .....	24
State Funding of Education .....	24
Revenue Sources .....	28
Potential Decline in State Revenues .....	28
Effect of Covid-19 Response on California School Districts .....	28
District Investments.....	29
Budget Procedures.....	30
Financial Statements of the District .....	33
State Budget Measures .....	35

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS .....	38
Article XIII A of the California Constitution .....	38
Legislation Implementing Article XIII A .....	39
Article XIII B of the California Constitution .....	39
Unitary Property .....	40
California Lottery .....	40
Proposition 46 .....	40
Proposition 39 .....	41
Jarvis v. Connell .....	41
Proposition 1 A and Proposition 22 .....	42
Proposition 30 .....	43
Proposition 55 .....	43
Proposition 51 .....	44
Proposition 2 .....	44
Future Initiatives .....	45
PACIFIC UNION SCHOOL DISTRICT .....	46
District Organization .....	46
Key Personnel .....	47
District Employees .....	47
Insurance .....	47
Retirement Systems .....	48
Post-Employment Benefits .....	51
District Debt Structure .....	52
THE HUMBOLDT COUNTY POOLED INVESTMENT FUND .....	53
CONTINUING DISCLOSURE .....	54
LEGAL MATTERS .....	54
TAX MATTERS .....	55
Tax Accounting Treatment of Discount and Premium on Certain of the Bonds .....	56
BANK QUALIFICATION .....	57
LEGALITY FOR INVESTMENT .....	57
RATINGS .....	57
UNDERWRITING .....	57
NO LITIGATION .....	58
OTHER INFORMATION .....	58
APPENDIX A – FORM OF BOND COUNSEL OPINION .....	A-1
APPENDIX B – SELECTED INFORMATION REGARDING THE COUNTY OF HUMBOLDT .....	B-1
APPENDIX C – PACIFIC UNION SCHOOL DISTRICT AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2019 .....	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT .....	D-1
APPENDIX E – BOOK-ENTRY ONLY SYSTEM .....	E-1
APPENDIX F – ACCRETED VALUES TABLE .....	F-1
APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	G-1

**\$3,096,436.00**  
**PACIFIC UNION SCHOOL DISTRICT**  
**(Humboldt County, California)**  
**GENERAL OBLIGATION BONDS**  
**2018 ELECTION, 2020 SERIES B**  
**(Bank Qualified)**

**INTRODUCTION**

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

**Events Subsequent to Preliminary Official Statement**

Additional disclosure regarding the outbreak of COVID-19 has been included in this Official Statement, including the enactment of the Coronavirus Aid, Relief, and Economic Stimulus Act (the “CARES Act”) by the United States federal government. See “DISTRICT FINANCIAL INFORMATION – Potential Decline in State Revenues” herein for further discussion regarding the potential impact of COVID-19 on the District.

**General**

Pacific Union School District (the “District”) proposes to issue \$3,096,436.00 aggregate principal amount of its General Obligation Bonds, 2018 Election, 2020 Series B (the “Bonds”) under and pursuant to a bond authorization (the “Authorization”) for the issuance and sale of not more than \$5,600,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the measure at a general election held on June 5, 2018 (the “Election”). The District previously issued its \$2,500,000 General Obligation Bonds, 2018 Election, 2018 Series A (the “2018 Series A Bonds”) on September 20, 2018, pursuant to the Authorization. The Bonds are intended to be the second and final series of general obligation bonds to be issued under the Authorization. Subsequent to the issuance of the Bonds, a de minimis amount of general obligation bonds will remain for issuance pursuant to the Authorization which the District does not intend to issue.

Proceeds from the sale of the Bonds will be used to finance the acquisition, construction, furnishing and equipping of District facilities and to pay certain costs of issuance associated therewith. See “THE PROJECTS” herein.

**Registration**

The Bank of New York Mellon Trust Company, N.A. will act as the initial registrar, transfer agent and paying agent for the Bonds (the “Paying Agent”). As long as The Depository Trust Company, New York, New York (“DTC”) is the registered Owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notices to Owners only to DTC. See “THE BONDS – Description of the Bonds” herein.

## **The District**

The District was established in 1958 and consists of an area of approximately 14 square miles in the western portion of the County of Humboldt, California (the “county”), along the Pacific Coastline. The District serves children in the community of Arcata which includes the areas of Pacific Manor, Vassaide Estates, Valley West, West End Road, North Bank Road and Hunts Drive. The District is located approximately 300 miles northwest of the City of Sacramento and approximately 290 miles north of the City of San Francisco. The District operates one school providing kindergarten through eighth grade education services. Additionally, Trillium Charter School operates within the District and provides kindergarten through fifth grade education services to approximately 45 students within the District. The District’s ADA for fiscal year 2019-20 is budgeted to be 539 students and the District had a 2019-20 total assessed valuation of \$632,161,587. The District’s audited financial statements for the fiscal year ended June 30, 2019 are attached hereto as APPENDIX C. For further information concerning the District, see the caption “PACIFIC UNION SCHOOL DISTRICT” herein.

## **Sources of Payment for the Bonds**

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

## **Bond Insurance**

The scheduled payment of principal and Maturity Value of and interest on the Bonds will be guaranteed under a policy of municipal bond insurance to be delivered concurrently with the issuance of the Bonds by Build America Mutual Assurance Company (the “Bond Insurer”). See “BOND INSURANCE” herein and APPENDIX G – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY” hereto.

## **Authority for Issuance**

The Bonds are general obligations of the District. The Bonds are being issued by the District under certain provisions of the Government Code of the State and pursuant to a resolution adopted by the Board. See “THE BONDS - Authority for Issuance” herein.

## **Redemption**

The Bonds are subject to redemption prior to their scheduled maturity as described herein. See “THE BONDS –Redemption” herein.

## **Tax Matters**

In the opinion of Dannis Woliver Kelley, Bond Counsel, subject to the qualifications described herein, under existing law, interest on the Bonds will be excludable from gross income for federal income tax purposes and will not be included in computing the alternative minimum taxable income of the owners thereof. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.

## **Bank Qualified**

The District has designated the Bonds as “qualified tax-exempt obligations,” thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution’s interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

## **Continuing Disclosure**

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

## **Closing Date**

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about April 9, 2020.

## **THE BONDS**

### **Authority for Issuance**

The Bonds are general obligations of the District. The Bonds are being issued by the District under the provisions of Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the Government Code of the State of California (the “Government Code”) (commencing with Section 53506) and pursuant to a resolution of the Board adopted on March 10, 2020 (the “Resolution”).

### **Purpose of Issue**

The net proceeds of the Bonds will be used to finance certain capital improvements for the District as specified in the District bond proposition submitted at the Election, which includes repairing or replacing leaky roofs; increasing student access to computers and technology and modernizing/renovating classrooms, restrooms, and school facilities. See “THE PROJECTS” herein.

### **Description of the Bonds**

The Bonds will be issued as current interest bonds (the “Current Interest Bonds”) and capital appreciation bonds (the “Capital Appreciation Bonds”). The Bonds will be issued in initial principal amounts corresponding to \$5,000 principal amount or accreted value at maturity (“Maturity Value”) or integral multiples thereof and in each case, will mature on the dates and in the amounts and bear or accrete interest at the rates per annum, all as set forth on the inside cover page of this Official Statement. Interest shall be computed based on a 360-day year of twelve 30-day months.

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

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

## **Payment of the Bonds**

### ***Current Interest Bonds***

The principal of the Current Interest Bonds is payable on the maturity dates of the respective Bonds or the earlier redemption of such Current Interest Bonds. Interest on the Current Interest Bonds is payable commencing August 1, 2020, and semiannually thereafter on February 1 and August 1 of each year (each, an “Interest Payment Date”) through maturity.

Interest on each Current Interest Bond shall accrue from its dated date at the interest rates applicable thereto as set forth on the inside cover page hereof. Interest shall be computed using a year of 360 days comprised of twelve 30-day months and shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the fifteenth calendar day of the month next preceding an Interest Payment Date (the “Record Date”). Interest will be payable from the Interest Payment Date next preceding the date of registration thereof, unless (i) it is registered during the period from the 16<sup>th</sup> day of the month immediately preceding any Interest Payment Date to that Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is registered prior to the close of business on July 15, 2020, in which event interest shall be payable from its Dated Date; provided, however, that if at the time of registration of any Current Interest Bond interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Payments of interest will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the Owner thereof on the Record Date, or by wire transfer to any Owner of \$1,000,000 or more of such Current Interest Bonds, to the account specified by such Owner in a written request delivered to the Paying Agent on or prior to the Record Date for such Interest Payment Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Current Interest Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent which shall not be more than 15 days and not less than ten days prior to the date of the proposed payment of defaulted interest.

### ***Capital Appreciation Bonds***

The Capital Appreciation Bonds are payable only at maturity or earlier redemption thereof and will not bear interest on a current basis. The Maturity Value of each Capital Appreciation Bond is equal to its accreted value upon the maturity thereof, being comprised of its initial purchase price (the “Initial Principal Amount”) and the accreted interest between the delivery date and its respective maturity date. The Capital Appreciation Bonds accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2020, through their maturity dates as set forth on the inside cover page of this Official Statement. See APPENDIX F – “ACCRETED VALUES TABLE” hereto for the accreted values of the Capital Appreciation Bonds as of each February 1 and August 1.

## Redemption

**Optional Redemption.** The Bonds maturing on August 1, 2021 are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 2032 may be redeemed before maturity at the option of and as directed by the District, from any source of available funds, on any date on or after August 1, 2027 at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the date of redemption, without premium.

**Mandatory Redemption.** The Bonds maturing on August 1, 2032 are subject to mandatory sinking fund redemption on August 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. The principal amount to be so redeemed and the dates therefor and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date (August 1)	Maturity Value to be Redeemed
2022	\$55,685.25
2023	3,824.55
2024	11,820.45
2025	20,296.00
2026	29,273.30
2027	38,774.70
2028	44,385.50
2029	27,436.20
2030	32,976.30
2031	38,826.40
2032 <sup>(1)</sup>	45,000.00

<sup>(1)</sup> Maturity.

The Bonds maturing on August 1, 2044 are subject to mandatory sinking fund redemption on August 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. The principal amount to be so redeemed and the dates therefor and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date <u>(August 1)</u>	Maturity Value to <u>be Redeemed</u>
2033	\$ 51,481.50
2034	56,824.00
2035	62,476.70
2036	68,454.00
2037	74,770.70
2038	81,445.00
2039	88,492.95
2040	100,293.80
2041	108,296.40
2042	112,064.40
2043	125,628.10
2044 <sup>(1)</sup>	135,000.00

<sup>(1)</sup> Maturity.

The Bonds maturing on August 1, 2047 are subject to mandatory sinking fund redemption on August 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. The principal amount to be so redeemed and the dates therefor and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date <u>(August 1)</u>	Maturity Value to <u>be Redeemed</u>
2045	\$145,000.00
2046	160,000.00
2047 <sup>(1)</sup>	180,000.00

<sup>(1)</sup> Maturity.

The Bonds maturing on August 1, 2049 are subject to mandatory sinking fund redemption on August 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. The principal amount to be so redeemed and the dates therefor and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date <u>(August 1)</u>	Principal Amount to <u>be Redeemed</u>
2048	\$200,000.00
2049 <sup>(1)</sup>	455,000.00

<sup>(1)</sup> Maturity.

The Bonds maturing on August 1, 2051 are subject to mandatory sinking fund redemption on August 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. The principal amount to be so redeemed and the dates therefor and the final payment date is as indicated in the following table:

Mandatory Sinking Fund Payment Date <u>(August 1)</u>	Principal Amount to <u>be Redeemed</u>
2050	\$495,000.00
2051 <sup>(1)</sup>	540,000.00

<sup>(1)</sup> Maturity.

### **Selection of Bonds for Redemption**

Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent shall select Bonds for redemption in inverse order of maturity or in such order as the District may otherwise direct. Within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; *provided, however*, that the portion of any Bond to be redeemed in part shall be in the principal amount, or in case of Capital Appreciation Bonds, Maturity Value, of \$5,000 or any integral multiple thereof.

### **Notice of Redemption**

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

### **Right to Rescind Notice of Redemption**

The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Debt Service Fund of the District held by the County or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal or accreted value of and interest and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such

rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

### **Effect of Notice of Redemption**

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

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

### **Transfer and Exchange**

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

### **Defeasance**

If any or all Outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the principal or accreted value of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent or other fiduciary, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund plus the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds Outstanding at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with the Paying Agent or an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent pursuant to the Resolution, in trust, lawful money or noncallable direct obligations issued of the United States of America (including State and Local Government Series Obligations) or other noncallable obligations which are unconditionally guaranteed by a pledge of the full faith and credit of the United States of America in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay and discharge all Bonds Outstanding at or before their respective maturity dates, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the Resolution with respect to such Outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the Resolution.

## Book-Entry Only System

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

## Continuing Disclosure Agreement

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

## SOURCES AND USES OF FUNDS

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

### *Sources of Funds*

Principal Amount of Bonds	\$3,096,436.00
Net Original Issue Premium	<u>246,468.75</u>
Total Sources	\$3,342,904.75

### *Uses of Funds*

Building Fund	\$2,951,436.00
Debt Service Fund	190,317.31
Costs of Issuance <sup>(1)</sup>	<u>201,151.44</u>
Total Uses	\$3,342,904.75

<sup>(1)</sup> Payment of the costs of issuance of the Bonds, including Underwriter’s discount, Bond and Disclosure Counsel fees, financial advisory fees, bond insurance premium, rating agency fees and other costs of issuance.

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

## ANNUAL DEBT SERVICE SCHEDULES

The first of the following two tables summarizes the annual principal and interest payments on the Bonds. The second table shows the annual debt service payments on all of the District's outstanding obligations repaid from *ad valorem* property taxes, comprising the 2012 General Obligation Refunding Note (the "Refunding Note"), the 2018 Series A Bonds, and the Bonds, assuming no optional redemption.

### PACIFIC UNION SCHOOL DISTRICT DEBT SERVICE ON THE BONDS

Bond Year Ending August 1	Principal	Interest	Compounded Interest	Total Debt Service
2020		\$31,235.56	--	\$31,235.56
2021	\$100,000.00	100,400.00	--	200,400.00
2022	51,981.75	98,400.00	\$3,703.50	154,085.25
2023	3,465.45	98,400.00	359.10	102,224.55
2024	10,396.35	98,400.00	1,424.10	110,220.45
2025	17,327.25	98,400.00	2,968.75	118,696.00
2026	24,258.15	98,400.00	5,015.15	127,673.30
2027	31,189.05	98,400.00	7,585.65	137,174.70
2028	34,654.50	98,400.00	9,731.00	142,785.50
2029	20,792.70	98,400.00	6,643.50	125,836.20
2030	24,258.15	98,400.00	8,718.15	131,376.30
2031	27,723.60	98,400.00	11,102.80	137,226.40
2032	31,189.05	98,400.00	13,810.95	143,400.00
2033	32,652.00	98,400.00	18,829.50	149,881.50
2034	34,828.80	98,400.00	21,995.20	155,224.00
2035	37,005.60	98,400.00	25,471.10	160,876.70
2036	39,182.40	98,400.00	29,271.60	166,854.00
2037	41,359.20	98,400.00	33,411.50	173,170.70
2038	43,536.00	98,400.00	37,909.00	179,845.00
2039	45,712.80	98,400.00	42,780.15	186,892.95
2040	50,066.40	98,400.00	50,227.40	198,693.80
2041	52,243.20	98,400.00	56,053.20	206,696.40
2042	52,243.20	98,400.00	59,821.20	210,464.40
2043	56,596.80	98,400.00	69,031.30	224,028.10
2044	58,773.60	98,400.00	76,226.40	233,400.00
2045	145,000.00	98,400.00	--	243,400.00
2046	160,000.00	91,150.00	--	251,150.00
2047	180,000.00	83,150.00	--	263,150.00
2048	200,000.00	74,150.00	--	274,150.00
2049	455,000.00	64,150.00	--	519,150.00
2050	495,000.00	41,400.00	--	536,400.00
2051	<u>540,000.00</u>	<u>21,600.00</u>	<u>--</u>	<u>561,600.00</u>
Total	\$3,096,436.00	\$2,868,835.56	\$592,090.20	\$6,557,361.76

**PACIFIC UNION SCHOOL DISTRICT  
DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS**

Bond Year Ending August 1	The Refunding Note	The 2018 Series A Bonds	The Bonds	Total Debt Service
2020	\$169,614.10	\$156,418.76	\$31,235.56	\$357,268.42
2021	172,158.00	94,618.76	200,400.00	467,176.76
2022	169,089.90	94,618.76	154,085.25	417,793.91
2023	170,716.50	94,618.76	102,224.55	367,559.81
2024	171,850.60	94,618.76	110,220.45	376,689.81
2025	--	94,618.76	118,696.00	213,314.76
2026	--	94,618.76	127,673.30	222,292.06
2027	--	94,618.76	137,174.70	231,793.46
2028	--	94,618.76	142,785.50	237,404.26
2029	--	124,618.76	125,836.20	250,454.96
2030	--	128,718.76	131,376.30	260,095.06
2031	--	137,668.76	137,226.40	274,895.16
2032	--	141,318.76	143,400.00	284,718.76
2033	--	144,818.76	149,881.50	294,700.26
2034	--	153,100.00	155,224.00	308,324.00
2035	--	155,987.50	160,876.70	316,864.20
2036	--	163,712.50	166,854.00	330,566.50
2037	--	171,012.50	173,170.70	344,183.20
2038	--	177,975.00	179,845.00	357,820.00
2039	--	184,600.00	186,892.95	371,492.95
2040	--	190,750.00	198,693.80	389,443.80
2041	--	196,550.00	206,696.40	403,246.40
2042	--	207,000.00	210,464.40	417,464.40
2043	--	211,925.00	224,028.10	435,953.10
2044	--	221,500.00	233,400.00	454,900.00
2045	--	228,000.00	243,400.00	471,400.00
2046	--	238,750.00	251,150.00	489,900.00
2047	--	248,500.00	263,150.00	511,650.00
2048	--	257,250.00	274,150.00	531,400.00
2049	--	--	519,150.00	519,150.00
2050	--	--	536,400.00	536,400.00
2051	--	--	<u>561,600.00</u>	<u>561,600.00</u>
Total	\$853,429.10	\$4,597,125.14	\$6,557,361.76	\$12,007,916.00

## SECURITY FOR THE BONDS

### General

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal and Maturity Value of and interest on the Bonds. See “TAX BASE FOR REPAYMENT OF THE BONDS” herein. The District received approval from voters to issue \$5,600,000 principal amount of general obligation bonds pursuant to the Authorization. The Bonds are intended to be the second and final series of bonds issued under the Authorization. Subsequent to the issuance of the Bonds, a de minimis amount of obligation bonds will remain for issuance under the Authorization that the District does not intend to issue.

### Property Taxation System

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

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

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

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

Pursuant to Section 53515 of the State Government Code, effective January 1, 2016, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

## **Pledge of Tax Revenues**

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

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **The Bond Insurer**

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

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

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

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in

accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

***Capitalization of BAM.*** BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 million, respectively.

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

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

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

***Additional Information Available from BAM.***

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

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

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

reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

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

## **THE PROJECTS**

The District intends to apply the net proceeds of the Bonds to finance the acquisition, construction, furnishing and equipping of District facilities in accordance with the Authorization received at the Election which includes the ballot measure and a project list.

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

## **TAX BASE FOR REPAYMENT OF THE BONDS**

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

### **Ad Valorem Property Taxation**

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

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty

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

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

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

### **Assessed Valuations**

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

A State-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, 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. No reimbursement is made by the State for such exemptions.

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

The following table presents the historical assessed valuation in the District for the last fifteen fiscal years including the annual percent change. The District’s total assessed valuation is \$632,161,587 in fiscal year 2019-20.

**PACIFIC UNION SCHOOL DISTRICT  
Summary of Assessed Valuations  
Fiscal Years 2005-06 Through 2019-20**

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2005-06	\$338,206,692	\$0	\$28,212,080	\$366,418,772	--
2006-07	368,679,915	0	30,933,597	399,613,512	9.06%
2007-08	400,110,424	0	29,748,388	429,858,812	7.56
2008-09	431,950,706	0	28,639,432	460,590,138	7.15
2009-10	446,608,463	0	31,172,286	477,780,749	3.73
2010-11	455,406,193	0	30,373,892	485,780,085	1.67
2011-12	460,639,856	0	32,270,092	492,909,948	1.47
2012-13	468,318,513	0	32,489,888	500,808,401	1.60
2013-14	470,752,995	0	28,432,294	499,185,289	(0.32)
2014-15	485,366,453	0	30,533,723	515,900,176	3.35
2015-16	498,465,183	0	30,894,408	529,359,591	2.61
2016-17	515,333,571	0	34,310,690	549,644,261	3.83
2017-18	536,723,009	0	37,483,017	574,206,026	4.47
2018-19	568,646,934	0	36,549,551	605,196,985	5.40
2019-20	591,253,619	0	40,907,968	632,161,587	4.46

Source: California Municipal Statistics, Inc.

**Appeals and Adjustments of Assessed Valuations**

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

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

County assessors, at their discretion, may also, from time to time, review certain property types purchased between specific time periods and may proactively, temporarily reduce the assessed value of qualifying properties to Proposition 8 assessed values without owner appeal therefor.

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

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

***Recent California Drought Conditions, Mudslides and Wildfires.*** Water shortfalls resulting from the driest conditions in recorded State history caused Governor Brown, on January 17, 2014, to declare a State-wide Drought State of Emergency for California and directed State officials to take all necessary actions to prepare for water shortages. Following the Governor’s declaration, the California State Water Resources Control Board (the “Water Board”) issued a statewide notice of water shortages and potential future curtailment of water right diversions. Subsequent executive orders and Water Board regulations imposed reductions on water usage in response to the drought conditions. On April 7, 2017, the Governor announced the end of the State-wide drought in all but four counties in California but extended conservation measures indefinitely in order to prepare California for fluctuations in water conditions and potential future drought conditions. According to the U.S. Drought Monitor, as of March 2019, California is not currently experiencing any drought conditions. Additionally, in 2017 and 2018, certain portions of the State were affected by large wildfires and mudslides which destroyed both natural lands and residential and commercial properties and resulted in large-scale property value reductions in the impacted areas. The District was not impacted by the wildfires.

The District cannot make any representation regarding the effects that a future drought or wildfires may have on the assessed value of taxable property within the District, or to what extent such events could cause disruptions to agricultural production, reduce land values, or adversely impact other economic activity within the boundaries of the District.

[Remainder of page intentionally blank]

The following table presents the distribution of single family homes within the District among various assessed valuation ranges, as well as the average and median assessed valuation of single family homes, for fiscal year 2019-20.

**PACIFIC UNION SCHOOL DISTRICT  
2019-20 Assessed Valuation of Single Family Homes**

Single Family Residential	<u>No. of Parcels</u>	<u>2019-20 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
	939	\$248,440,023	\$264,579	\$231,795

<u>2019-20 Assessed Valuation</u>	<u>No. of Parcels <sup>(1)</sup></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	6	0.639%	0.639%	\$79,776	0.032%	0.032%
\$25,000 - \$49,999	25	2.662	3.301	1,001,709	0.403	0.435
\$50,000 - \$74,999	46	4.899	8.200	2,875,300	1.157	1.593
\$75,000 - \$99,999	50	5.325	13.525	4,409,224	1.775	3.367
\$100,000 - \$124,999	78	8.307	21.832	8,739,566	3.518	6.885
\$125,000 - \$149,999	81	8.626	30.458	11,098,838	4.467	11.353
\$150,000 - \$174,999	64	6.816	37.274	10,447,005	4.205	15.558
\$175,000 - \$199,999	67	7.135	44.409	12,556,258	5.054	20.612
\$200,000 - \$224,999	41	4.366	48.775	8,707,765	3.505	24.117
\$225,000 - \$249,999	48	5.112	53.887	11,439,231	4.604	28.721
\$250,000 - \$274,999	58	6.177	60.064	15,202,159	6.119	34.840
\$275,000 - \$299,999	48	5.112	65.176	13,740,364	5.531	40.371
\$300,000 - \$324,999	43	4.579	69.755	13,443,769	5.411	45.782
\$325,000 - \$349,999	38	4.047	73.802	12,775,343	5.142	50.924
\$350,000 - \$374,999	39	4.153	77.955	14,105,758	5.678	56.602
\$375,000 - \$399,999	35	3.727	81.683	13,524,861	5.444	62.046
\$400,000 - \$424,999	34	3.621	85.304	13,926,538	5.606	67.652
\$425,000 - \$449,999	16	1.704	87.007	7,030,594	2.830	70.481
\$450,000 - \$474,999	16	1.704	88.711	7,386,718	2.973	73.455
\$475,000 - \$499,999	17	1.810	90.522	8,225,631	3.311	76.766
\$500,000 and greater	<u>89</u>	<u>9.478</u>	100.000	<u>57,723,616</u>	<u>23.234</u>	100.000
	939	100.000%		\$248,440,023	100.000%	

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

[Remainder of page intentionally blank]

The table below presents the 2019-20 assessed valuation within the District by land use.

**PACIFIC UNION SCHOOL DISTRICT  
2019-20 Assessed Valuation and Parcels by Land Use**

	2019-20 <u>Assessed Valuation</u> <sup>(1)</sup>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
<b><u>Non-Residential:</u></b>				
Rural/Undeveloped	\$ 14,738,235	2.49%	264	11.65%
Commercial	82,549,284	13.96	68	3.00
Vacant Commercial	3,177,716	0.54	16	0.71
Hotel	33,688,990	5.70	17	0.75
Industrial	103,032,157	17.43	72	3.18
Vacant Industrial	3,079,039	0.52	31	1.37
Government/Social/Institutional	<u>724,342</u>	<u>0.12</u>	<u>15</u>	<u>0.66</u>
Subtotal Non-Residential	\$240,989,763	40.76%	483	21.31%
<b><u>Residential:</u></b>				
Single Family Residence	\$248,440,023	42.02%	939	41.42%
Condominium	2,830,429	0.48	15	0.66
Mobile Home	17,003,202	2.88	622	27.44
Mobile Home Park	18,965,811	3.21	7	0.31
2-4 Residential Units	33,227,669	5.62	96	4.23
5+ Residential Units/Apartments	26,123,545	4.42	30	1.32
Vacant Residential	<u>3,673,177</u>	<u>0.62</u>	<u>75</u>	<u>3.31</u>
Subtotal Residential	\$350,263,856	59.24%	1,784	78.69%
<b>Total</b>	<b>\$591,253,619</b>	<b>100.00%</b>	<b>2,267</b>	<b>100.00%</b>

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

[Remainder of page intentionally blank]

The table below presents the twenty (20) largest local secured taxpayers within the District for fiscal year 2019-20.

**PACIFIC UNION SCHOOL DISTRICT  
Largest 2019-20 Local Secured Taxpayers**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2019-20 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	Sun Valley Floral Farms LLC	Industrial/Greenhouse	\$50,723,045	8.58%
2.	American Hospital Management Corp.	Office Building	21,735,029	3.68
3.	Sun Lazy J LLC	Mobile Home Park	14,666,830	2.48
4.	Shami Valley West LLC	Shopping Center	10,869,471	1.84
5.	Sarti Rohnert Park LLC	Hotel/Motel	7,715,840	1.30
6.	Arcata Land Company LLC	Light Industrial	7,060,964	1.19
7.	Shailesh & Jayshree Patel Trust	Hotel/Motel	6,399,256	1.08
8.	Larry A. & Lisa K. Debeni Trust	Commercial Buildings	5,979,903	1.01
9.	Kramer Investment Corp.	Apartments	4,766,771	0.81
10.	Eric R. & Mary H. Almquist Trust	Lumber Yard	4,555,469	0.77
11.	Mark C. & Bonnie L. Jones Trust	Professional Buildings	4,174,305	0.71
12.	4975 Valley West LLC Co.	Hotel/Motel	4,117,687	0.70
13.	Jai Gopal Hospitality LLC	Hotel/Motel	3,669,285	0.62
14.	Taylor Mariculture LLC	Residential	3,648,784	0.62
15.	C & B Hospitality Inc.	Hotel/Motel	3,566,152	0.60
16.	Michael & Audrey Bode	Residential	3,348,007	0.57
17.	Francisco P. & Lenda M. Leal	Residential	3,336,005	0.56
18.	Tanka Chase & Kelly Ayers-Chase	Retail – Building Supplies	3,230,883	0.55
19.	Robert L. & Kathryn J. Figas Trust	Light Industrial	3,180,066	0.54
20.	Jesse P. Wedemeyer Trust	Residential	<u>3,132,268</u>	<u>0.53</u>
			\$169,876,020	28.73%

<sup>(1)</sup> 2019-20 local secured assessed valuation: \$591,253,619.

Source: California Municipal Statistics, Inc.

The top 20 taxpayers on the secured roll for 2019-20 account for 28.73% of the total secured assessed value in the District, which is \$169,876,020. According to California Municipal Statistics, Inc., the largest secured taxpayer in the District for 2019-20 was Sun Valley Floral Farms LLC, accounting for 8.58% of the total secured assessed value in the District. No other secured taxpayer accounted for more than 3.68% of the total secured assessed value in the District. The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner.

[Remainder of page intentionally blank]

## Tax Rates

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

**PACIFIC UNION SCHOOL DISTRICT**  
**Typical Tax Rate per \$100 Assessed Valuation**  
(TRA 1-039<sup>1</sup>)

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
General Tax Rate	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Northern Humboldt Union High School District	.0170	.0170	.0240	.0230	.0290
Redwoods Community College District	.0130	.0100	.0080	.0080	.0080
Pacific Union School District	.0290	.0270	.0260	.0210	.0690
Total Tax Rate	\$1.0590	\$1.0540	\$1.0580	\$1.0520	\$1.1060

<sup>(1)</sup> The 2019-20 assessed valuation of TRA 1-039 is \$104,809,265 which is 16.58% of the district's total assessed valuation.  
Source: California Municipal Statistics, Inc.

## No Teeter Plan

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

The Teeter Plan applies to the 1% general purpose property tax levy. Whether or not the Teeter Plan also is applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of local agencies, varies by county. The County does not include the District's general obligation bond levy under the Teeter Plan. **Therefore, the receipt of property taxes within the County with respect to the District's general obligation bonds, including the Bonds, is subject to delinquencies.**

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

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

## Direct and Overlapping Debt

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

The following table is a statement of the District's direct and estimated overlapping bonded debt as of February 14, 2020:

### PACIFIC UNION SCHOOL DISTRICT DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

2019-20 Assessed Valuation: \$632,161,587

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/20</u>
Redwoods Joint Community College District	3.219%	\$ 820,684
Northern Humboldt Union High School District	12.998	3,933,874
<b>Pacific Union School District</b>	<b>100.000</b>	<b><u>3,131,900</u><sup>(1)</sup></b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$7,886,458

<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Humboldt County Certificates of Participation	4.481%	\$ 407,995
Humboldt County Board of Education Certificates of Participation	4.481	130,397
City of Arcata Certificates of Participation	26.336	684,038
McKinleyville Community Services District General Fund Obligations	1.266	<u>13,482</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$1,235,912

OVERLAPPING TAX INCREMENT DEBT (Successor Agency): \$1,593,773

COMBINED TOTAL DEBT \$10,716,143<sup>(2)</sup>

Ratios to 2019-20 Assessed Valuation:

<b>Direct Debt (\$3,131,900)</b> .....	<b>0.50%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	1.25%
Combined Total Debt.....	1.70%

Ratio to Redevelopment Incremental Valuation (\$202,370,044):

Total Overlapping Tax Increment Debt .....	0.79%
--	-------

<sup>(1)</sup> Excludes the Bonds.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

## DISTRICT FINANCIAL INFORMATION

*The information in this section concerning the operations of the District and the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal or accreted value of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY FOR THE BONDS" and "TAX BASE FOR REPAYMENT OF THE BONDS" herein.*

### State Funding of Education

On June 27, 2013, the State adopted a new method for funding school districts commonly known as the "Local Control Funding Formula." The Local Control Funding Formula ("LCFF") was initially implemented in fiscal year 2013-14 and has subsequently been implemented in stages with full implementation expected in fiscal year 2018-19. Prior to adoption of the LCFF, the State used a revenue limit system described below.

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

Under the LCFF, State allocations are provided on the basis of target base funding grants per unit of ADA (a "Base Grant") assigned to each of four grade spans. Full implementation of the LCFF occurred over a period of several fiscal years and was completed in fiscal year 2018-19. Beginning in fiscal year 2013-14, an annual transition adjustment was calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts had the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

For fiscal year 2019-20, the base rates per unit of ADA for each grade span are as follows: (i) \$8,503 for grades K-3, (ii) \$7,818 for grades 4-6, (iii) \$8,050 for grades 7-8, and (iv) 9,572 for grades 9-12. Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants have been adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of cost-of-living adjustments will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively

bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

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

The following table sets forth the historical ADA and enrollment for fiscal years 2011-12 through 2017-18.

**HISTORICAL ADA AND ENROLLMENT**  
**Fiscal Years 2011-12 through 2017-18**  
**Pacific Union School District**

Fiscal Year	ADA	Enrollment
2011-12	457.96	513
2012-13	469.70	542
2013-14	494.10	562
2014-15	509.07	588
2015-16	508.18	579
2016-17	502.83	569
2017-18	520.02	587

*Source: Pacific Union School District.*

[Remainder of page intentionally blank]

The following table sets forth the ADA by grade span, enrollment and the percentage of EL/LI enrollment for fiscal years 2018-19 and with projections for fiscal years 2019-20, 2020-21 and 2021-22.

**ADA, ENROLLMENT AND ENGLISH LANGUAGE/LOW INCOME ENROLLMENT**  
**Fiscal Years 2018-19 through 2021-22**  
**Pacific Union School District**

Fiscal Year	ADA			Enrollment	
	K-3 <sup>2</sup>	4-6 <sup>2</sup>	7-8	Total Enrollment <sup>2</sup>	% of EL/LI Enrollment <sup>2</sup>
2018-19	286.7	189.2	99.8	610	54%
2019-20 <sup>1</sup>	275.6	208.52	102.6	621	54
2020-21 <sup>1</sup>	269.9	195.25	112.1	609	54
2021-22 <sup>1</sup>	258.4	201.93	113.05	605	54

<sup>1</sup> Projected.

<sup>2</sup> Includes Trillium Charter School, a K-5 charter school operated within the District.

Source: Pacific Union School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target (“ERT”) add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The District does not qualify for the ERT add-on.

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

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

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

under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

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

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

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

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

***Revenue Limit Funding System.*** Prior to the implementation of the LCFF, annual State apportionments of basic and equalization aid to school districts for general purposes were computed up to a revenue limit (described below) per unit of ADA. Generally, such apportionments amounted to the difference between the District’s revenue limit and the District’s local property tax allocation. Revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (i.e., unified, high school or elementary). State law also provided for State support of specific

school related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

## Revenue Sources

The District categorizes its general fund revenues into four sources. The following table shows the percentage of revenue by source.

**PACIFIC UNION SCHOOL DISTRICT  
District Revenue Sources  
Fiscal Years 2016-17 through 2019-20**

<b>Percentage of Total District General Fund Revenues</b>				
<b>Revenue Source</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20<sup>(1)</sup></b>
LCFF sources	77.1%	78.9%	77.2%	81.6%
Federal revenues	3.8	3.7	3.4	5.4
Other State revenues	11.1	7.1	11.2	6.1
Other local revenues	8.0	10.3	8.2	6.9

(1) Based on 2019-20 Second Interim Report.

Source: Pacific Union School District.

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

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

**Other State Revenues.** The District receives some 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 instructional material.

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

## Potential Decline in State Revenues

In late 2019, an outbreak of COVID-19, a respiratory virus, occurred in China, and since that time has been spreading globally. The global outbreak, together with measures underway to attempt to limit the spread of COVID-19 imposed by local and federal governments, has caused volatility in financial markets and well as restrictions and closures of many businesses.

On March 13, 2020, responding to the evolving COVID-19 situation, President Trump declared a national emergency, making available more than \$50 billion in federal resources to combat the spread of the virus. On March 23, 2020 the Federal Reserve Bank lowered the federal funds rate to between zero

and one quarter percent, announced a Treasury security and agency backed-mortgage security buying program and emergency credit and liquidity facilities for financial institutions. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted in order to provide relief and stimulus to American businesses and individuals impacted by COVID-19. The CARES Act, in relevant part, i) creates a \$349 billion loan program for small businesses, ii) provides a payment of \$1,200 to each American earning \$75,000 a year or less (\$150,000 for couples filing jointly) and \$500 for each child, iii) expands eligibility for unemployment and increases benefits by \$600 per week for up to four months, iv) designates \$339.8 billion for state and local governments with \$274 billion for COVID-19 response efforts as well as an additional \$13 billion for K-12 schools, v) allocates \$500 billion in loans and investments to businesses, including \$58 billion to the airline industry, vi) allocates \$100 billion to hospitals and health providers and increases Medicare reimbursements for treating coronavirus and vii) delays federal student loan payments until September 2020.

### **Effect of Covid-19 Response on California School Districts**

In response to the outbreak of COVID-19 in the State, on March 4, 2020, Governor Gavin Newsom declared a State of Emergency. The declaration was intended to make additional resources available, formalize emergency actions underway across multiple State agencies and departments, and assist the State in preparing for the spread of COVID-19.

On March 13, 2020, the Governor issued Executive Order N-26-20, providing that school districts that initiate a school closure to address COVID-19 shall continue to receive state funding to support all of the following during the period of closure: (1) continued delivery of high-quality educational opportunities to students through, among other options, distance learning and/or independent study; (2) the provision of school meals in noncongregate settings; (3) arrangement for supervision for students during ordinary school hours; and (4) continued payment of school district employees. Executive Order N-26-20 also provides that statutory mandated maintenance of schools for a minimum of 175 days is waived for school districts that initiate a school closure to address COVID-19. On March 16, 2020, the Governor remarked that residents of the State should prepare for most schools to be closed for the remainder of the 2019-20 school year. On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory statewide shelter-in-place order applicable to all non-essential services.

On March 15, 2020, the District, upon consultation with the County Superintendent of Schools, determined to close its school campuses (including Trillium Charter School) effective March 16, 2020 and until March 27, 2020, and is monitoring the COVID-19 situation as to a decision when to reopen its campus on a day-to-day basis thereafter.

To address the impacts of school closures and the COVID-19 response, the California legislature adopted and the Governor has signed Senate Bill 89 (“SB 89”) and Senate Bill 117 (“SB 117”), which bills take effect immediately. SB 89 amends the Budget Act of 2019 by appropriating \$500,000,000 from the State General Fund for any purpose related to the Governor’s March 4 Emergency Proclamation. The second bill, SB 117, addresses economic impacts to school districts directly. Among other things, SB 117 provides that, for all school districts that comply with Executive Order N-26-20, attendance during only full school months from July 1, 2019, to February 29, 2020, inclusive, will be reported for apportionment purposes. SB 117 will also hold harmless school districts not meeting minimum instructional day and minute requirements, in order to prevent a loss of funding related to school closures due to the outbreak. SB 117 will also hold harmless grantees operating After School Education and Safety Programs that are prevented from operating such programs due to COVID-19, and credit such Program grantees with the ADA that the grantee would have received had it been able to operate but for COVID-19.

Under the 2019-20 State Budget (defined below), about 70% of the State's general fund revenue is projected to be derived from personal income tax receipts. Additionally, capital gains tax receipts are budgeted to account for about 10% of such receipts in fiscal year 2019-20. Given stock market declines and business closures in response to the COVID-19 outbreak and related shelter in place requirements, it is unknown whether personal income tax or capital gains tax receipts will be sufficient to fund the State budget for fiscal year 2019-20 and 2020-21 at the levels described below in “-State Budget Measures.”

As noted in the table above under the caption “DISTRICT FINANCIAL INFORMATION – Revenue Sources,” the District receives the large majority of its revenues from LCFF Sources which are comprised of local property taxes and State moneys. Should the State experience a decline in revenue resulting from the impacts of COVID-19, there may be a resulting decline in revenue available for funding school districts.

The District expects the COVID-19 outbreak to escalate locally within California but cannot predict the extent or duration of the outbreak or what impact it may have on District general fund revenues. However, the Bonds are general obligations of the District payable solely from *ad valorem* property taxes and are not payable from the general fund of the District.

### **District Investments**

The Humboldt County Treasurer-Tax Collector (the “County Treasurer”) manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the County Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County’s Treasury Pool.

The composition and value of investments under management in the Treasury Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally. For further information about Pooled Investment Fund, see “THE HUMBOLDT COUNTY POOLED INVESTMENT FUND.”

### **Budget Procedures**

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

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

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the

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

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

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

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

The table on the following page sets forth the adopted budgets compared to the audited actual results of the District for fiscal years 2015-16, 2016-17, 2017-18 and 2018-19 and the adopted budget compared to the projected financial results for fiscal year 2019-20, based upon the District fiscal year 2019-20 Second Interim Report.

[Remainder of page intentionally blank]

**GENERAL FUND BUDGETING**  
**Fiscal Years 2015-16 through 2019-20**  
**Pacific Union School District**

	Adopted Budget 2015-16 <sup>1</sup>	Audited Actuals 2015-16 <sup>1</sup>	Adopted Budget 2016-17 <sup>1</sup>	Audited Actuals 2016-17 <sup>1</sup>	Adopted Budget 2017-18 <sup>1</sup>	Audited Actuals 2017-18 <sup>1</sup>	Adopted Budget 2018-19 <sup>1</sup>	Audited Actuals 2018-19 <sup>1</sup>	Adopted Budget 2019-20	Second Interim Report 2019-20 <sup>2</sup>
<b>REVENUES</b>										
LCFF Sources	\$ 3,949,014	\$ 3,942,347	\$ 4,130,149	\$ 4,152,708	\$ 4,282,545	\$ 4,349,548	\$ 4,730,086	\$ 4,774,399	\$ 4,932,288	\$ 5,030,572
Federal	202,987	260,855	202,825	205,853	173,467	204,196	193,750	210,923	300,924	334,757
Other State	228,809	556,403	261,028	596,729	370,201	392,014	437,995	690,153	288,759	377,608
Other Local	<u>310,982</u>	<u>379,280</u>	<u>344,346</u>	<u>433,869</u>	<u>334,193</u>	<u>565,134</u>	<u>416,565</u>	<u>510,859</u>	<u>407,349</u>	<u>423,004</u>
Total Revenues	4,691,792	5,138,885	4,938,348	5,389,159	5,160,406	5,510,892	5,779,116	6,186,334	5,929,320	6,165,941
<b>EXPENDITURES</b>										
Certificated Salaries	2,049,801	2,159,583	2,168,091	2,276,491	2,335,878	2,425,934	2,357,636	2,397,229	2,449,473	2,577,779
Classified Salaries	623,867	610,374	699,402	643,030	711,988	689,857	800,489	797,336	906,608	877,070
Employee Benefits	954,686	1,150,281	1,047,012	1,377,247	1,284,674	1,546,486	1,452,865	1,905,790	1,562,630	1,863,503
Books and Supplies	259,520	186,839	228,465	219,239	325,764	264,829	324,627	218,531	405,209	413,566
Services, Other Operating Expenses	499,849	333,215	478,428	339,810	545,183	381,753	569,369	563,528	578,771	672,166
Other Outgo	79,931	88,400	103,209	172,482	204,056	166,775	194,251	181,623	183,523	251,105
Capital Outlay	40,000	16,056	411,746	78,327	240,625	88,163	30,000	72,874	12,000	28,611
Direct support/indirect costs	<u>(4,500)</u>	<u>(3,704)</u>	<u>(4,500)</u>	<u>(4,679)</u>	<u>(5,600)</u>	<u>(5,300)</u>	<u>(11,400)</u>	<u>(11,400)</u>	<u>(5,600)</u>	<u>(6,200)</u>
Total Expenditures	4,503,154	4,541,044	5,131,853	5,101,947	5,642,568	5,558,497	5,717,837	6,125,511	6,092,614	6,677,600
<b>EXCESS (DEFICIENCY) OR REVENUES OVER (UNDER) EXPENDITURES</b>	188,638	597,841	(193,505)	287,212	(482,162)	(47,605)	61,279	60,823	(163,294)	(511,659)
<b>OTHER FINANCING SOURCES (USES)</b>										
Interfund Transfers in	52,864	53,620	58,326	54,929	56,301	56,739	62,256	63,164	64,128	371,279
Interfund transfers out	<u>(33,313)</u>	<u>(28,004)</u>	<u>(19,111)</u>	<u>(18,998)</u>	<u>(18,625)</u>	<u>(18,436)</u>	<u>(15,997)</u>	<u>(17,953)</u>	<u>(33,364)</u>	<u>(44,010)</u>
Total Other Financing Sources and Uses	19,551	25,616	39,215	35,931	37,676	38,303	46,259	45,211	30,764	327,269
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	208,189	623,457	(154,290)	323,143	(444,486)	(9,302)	107,538	106,034	(132,530)	(184,390)
Fund Balance, July 1	2,096,261	2,096,261	2,719,718	2,719,718	3,042,861	3,042,861	3,033,559	3,033,559	1,242,014 <sup>4</sup>	1,242,014 <sup>4</sup>
Fund Balance, June 30	<u>\$ 2,304,450</u>	<u>\$ 2,719,718</u>	<u>\$ 2,565,428</u>	<u>\$ 3,042,861</u>	<u>\$ 2,598,375</u>	<u>\$ 3,033,559</u>	<u>\$ 3,141,097</u>	<u>\$ 3,139,593</u>	<u>\$ 1,109,484</u>	<u>\$ 1,057,624</u>

1 From the audited financial statements of the District for the stated fiscal year.

2 From the Second Interim Report of the District for fiscal year 2019-20, adopted by the Board on March 10, 2020.

3. The presentation of general fund balances are net of the available reserve amount (\$1,897,579)

Source: Pacific Union School District.

## **Financial Statements of the District**

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 fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Certain information from the District's financial statements follows. The audited financial statements for the District for the fiscal year ended June 30, 2019 are attached hereto as APPENDIX C. The District has not requested nor has the District obtained the consent of its auditors to the inclusion of its report in APPENDIX C to this Official Statement. The District has not requested, and its auditors have not provided, any review or update to such audited financial statements. The District's audited financial statements for prior and subsequent fiscal years can be obtained by contacting the District at 3001 Janes Road, Arcata, California 95521. The District may impose a charge for copying, mailing and handling.

The general fund of the District, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board. The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Chief Business Official for the District and audited by independent certified public accountants each year. The District's audited financial statements for fiscal year ended June 30, 2019 are attached hereto as APPENDIX C.

The following table describes the District's audited financial results for fiscal years 2015-16 through 2018-19.

[Remainder of page intentionally blank]

**PACIFIC UNION SCHOOL DISTRICT  
GENERAL FUND  
Statement of Revenues, Expenditures and Change in Fund Balances  
for Fiscal Years 2015-16 through 2018-19**

	2015-16 Audit	2016-17 Audit	2017-18 Audit	2018-19 Audit
<b>REVENUES</b>				
LCFF Sources	\$ 3,942,347	\$ 4,152,708	\$ 4,349,548	\$ 4,774,399
Federal Revenues	260,855	205,853	204,196	210,923
Other State Revenues	556,403	596,729	392,014	690,153
Other Local Revenues	<u>379,280</u>	<u>433,869</u>	<u>565,134</u>	<u>510,859</u>
<b>TOTAL REVENUES</b>	5,138,885	5,389,159	5,510,892	6,186,334
<b>EXPENDITURES</b>				
Current				
Instruction	3,180,762	3,560,049	3,941,585	4,176,634
Instruction Related Services	511,264	453,993	465,287	511,261
Pupil services	260,741	318,572	348,686	424,221
General administration	164,738	241,702	275,714	293,095
Plant services	297,701	391,271	402,723	525,309
Ancillary services	10,143	12,921	9,856	17,219
Community services	<u>115,695</u>	<u>123,439</u>	<u>144,646</u>	<u>177,772</u>
<b>TOTAL EXPENDITURES</b>	4,541,044	5,101,947	5,558,497	6,125,511
Excess (Deficiency) of Revenues Over Expenditures	597,841	287,212	(47,605)	60,823
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	53,620	54,929	56,739	63,164
Operating Transfers Out	<u>(28,004)</u>	<u>(18,998)</u>	<u>(18,436)</u>	<u>(17,953)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	25,616	35,931	38,303	45,211
Net Change in Fund Balances	623,457	323,143	(9,302)	106,304
Fund Balance at Beginning of Year	2,096,261	2,719,718	3,042,861	3,033,559
Fund Balance at End of Year	<u>\$ 2,719,718</u>	<u>\$ 3,042,861</u>	<u>\$ 3,033,559</u>	<u>\$ 3,139,593</u>

Source: Pacific Union School District.

## State Budget Measures

The District's principal funding formulas and revenue sources are derived from the budget of the State of California. **The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual commitment with the District, the County, the Underwriter, Bond and Disclosure Counsel nor the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District, Bond and Disclosure Counsel or the Underwriter assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including [www.dof.ca.gov](http://www.dof.ca.gov), which website is not incorporated herein by reference.**

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the State Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

**2019-20 State Budget.** On June 27, 2019, Governor Gavin Newsom signed the budget for the State for fiscal year 2019-20 (the "2019-20 State Budget"). Under the 2019-20 State Budget, general fund revenues and transfers are forecasted to total \$150.6 billion with expenditures reaching \$147.8 billion in fiscal year 2019-20. For fiscal year 2018-19, the 2019-20 State Budget includes revenues and transfers of \$149.5 billion, an increase of \$7.7 billion over the 2018-19 State budget, and expenditures of \$143 billion, approximately \$5 billion greater than under the 2018-19 State budget. The 2019-20 State Budget includes \$14.3 billion for reserves and paying down debts which will bring the Rainy Day Fund to \$16.5 billion at the end of fiscal year 2019-20. The 2019-20 State Budget also includes a \$4.3 billion supplemental contribution to pay down the State's share of unfunded PERS liabilities and STRS liabilities. Current assumptions provide that the school district contribution rate to STRS would decrease from 18.13% to 17.1% in fiscal year 2019-20 and from 19.1% to 18.4% in fiscal year 2020-21 as a result of such one-time payment. See "District Retirement Systems" herein.

The 2019-20 State Budget allocates total K-12 total funding of \$103.4 billion (\$58.8 billion in Proposition 98 funds and \$44.6 billion other funds). Total per-pupil funding would reach \$17,423 in 2019-20 from all sources. LCFF funding includes an additional \$1.9 billion in the form of a 3.26% COLA.

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

- Charter School Regulation — accountability requirements for charter schools to align governance, transparency and accountability requirements of school districts and charter schools.

- Special Education— \$645.3 million Proposition 98 funds for special education allocated among school districts based on children ages 3 to 5 years old with exception needs served by a school district.
- Proposition 51 Bond Funds — \$1.5 billion in bond funds to support school construction projects including new construction, modernization, retrofitting, career technical education, and charter school facility projects.
- Proposition 98 Settle-Up — \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funds owed through 2017-18.
- Kindergarten Facilities — \$300 million one-time non-Proposition 98 funds to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.
- New Teacher Grants — \$89.8 million one-time non-Proposition 98 funds to provide grants of \$20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years.
- After School Education and Safety Program (“ASES”) — \$50 million ongoing Proposition 98 funds to provide an increase of approximately 8.3% to the per-pupil daily rate for ASES.
- Educator Workforce Grants — \$37.1 million for the Educator Workforce Investment Grants for professional development in the following areas i) \$22.1 million for social emotional learning, computer science, restorative practices, and ethnic studies; ii) \$10 million implementation of the English-Learner Roadmap; iii) \$5 million for special education and inclusive practices.
- 21st Century California Leadership Academy — \$13.8 million federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.
- Classified Employees Summer Assistance Program — \$36 million one-time Proposition 98 funds to provide a state match for classified employee savings used to provide income during summer months.
- Broadband Infrastructure — \$7.5 million one-time non-Proposition 98 funds for broadband infrastructure.
- Longitudinal Data System — \$10 million one-time non-Proposition 98 funds to plan for and develop a longitudinal data system to track impacts of investments in educational goals.

**Proposed Fiscal Year 2020-21 State Budget.** The Governor announced his proposal for the budget for the State for fiscal year 2020-21 (the “Proposed 2020-21 State Budget”) on January 10, 2020 citing revenues and transfers for fiscal year 2020-21 of \$156.9 billion and expenditures of \$153 billion. Any increased revenues over the 2019-20 State Budget are directed to one-time spending (rather than programmatic expansion) in order to remain prepared for the possibility of an economic slowdown in the near future. The Proposed 2020-21 State Budget predicts that revenue growth will slow in the next four years as compared to fiscal year 2019-20. The Proposed 2020-21 State Budget includes a transfer of

nearly \$2 billion to the Budget Stabilization Account in 2020-21 and \$1.4 billion over the succeeding two years. The Rainy Day Fund is projected to reach \$19.4 billion by 2023-24.

Total per-pupil funding for K-12 education under the Proposed 2020-21 State Budget is approximately \$17,508 for fiscal year 2019-20 and \$17,964 for fiscal year 2020-21. Proposition 98 funding totals \$84 billion, which is the highest Proposition 98 funding level ever. The Proposed 2020-21 State Budget increases LCFE funding by \$1.2 billion which equates to a 2.29% COLA.

Significant provisions of the Proposed 2020-21 State Budget relating to K-12 education include the following:

- Educator Workforce Investment Grants -- \$350 million one-time Proposition 98 funds for professional learning opportunities for teachers and paraprofessionals in special education; multi-tiered systems of support and mental health interventions; supporting English language learners; social-emotional learning and restorative practices; non-discrimination, anti-bullying, and affirmative supports for marginalized students; and computer science and science, technology, engineering, and math.
- California Collaborative for Educational Excellence -- \$18 million one-time Proposition 98 funds to bolster awareness of available services and supports for all local educational agencies in the topics listed in the bullet point, above, to strengthen the capacity of local educational agencies to improve student outcomes in state priority areas.
- Workforce Development Grant Program — \$193 million one-time Proposition 98 funds to address workforce shortages in high-need subjects and areas.
- Teacher Residency Program — \$175 million one-time Proposition 98 funds for locally sponsored, one-year intensive, mentored, clinical teacher preparation programs dedicated to preparing and retaining teachers in high-need subject areas in high-need communities.
- California Teacher Credential Award Program — \$100 million one-time Proposition 98 funds for \$20,000 stipends for fully credentialed teachers who complete four years of teaching service in a high-need subject at a high-need school.
- California Classified School Employees Credentialing Program — \$64.1 million one-time Proposition 98 funds to provide grants to K-12 local educational agencies to recruit non-certificated school employees to become certificated classroom teachers.
- Exceptional Needs Preschoolers — \$250 million ongoing Proposition 98 funds on a one-time basis to school districts based on the number of children ages 3 to 5 years with exceptional needs to increase or improve services for such children.
- SELPAs — \$500,000 one-time Proposition 98 funds for a study of the current special education local plan area governance and accountability structure, and \$600,000 one-time Proposition 98 funds for two workgroups to study improved accountability for special education service delivery and student outcomes.
- Community School Grants — \$300 million one-time Proposition 98 funds for local educational agencies supporting innovative community school models including integrated and coordinated

student wrap-around services, collaborative leadership and support for educators and increased family and community engagement.

- Opportunity Grants — \$300 million one-time Proposition 98 funds to establish opportunity grants for the state’s lowest-performing schools and school districts and expand the capacity of the CCEE in its role within the statewide system of support.
- Public Preschool, K-12, and College Health and Safety Bond Act of 2020 — \$15 billion general obligation bond measure in March 2020 to provide \$9 billion to support K-12 facilities construction.
- Proposition 51 Bond Issuance — \$1.5 billion Proposition 51 bond funds to support school construction projects.
- Inclusive Early Education Expansion Program — \$75 million Proposition 98 funds to expand the Inclusive Early Education expansion Program to construct or modify preschool facilities to serve students with exceptional needs or severe disabilities.

**Future Actions.** The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions. Furthermore, the outbreak of COVID-19 has caused volatility in financial markets and required certain California businesses to close temporarily in compliance with the Governor’s shelter in place order. See “-Potential Decline in State Revenue” above for a discussion of COVID-19 and its impact on the economy and K-12 education.

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

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

Article XIII A of the California Constitution 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 (a) on indebtedness approved by the voters prior to July 1, 1978, (b) 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 and (c) on bonded indebtedness incurred by a school district or community college district for the construction, reconstruction or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in clause (c) 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.” The 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.

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

### **Legislation Implementing Article XIII A**

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

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

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

### **Article XIII B of the California Constitution**

Under Article XIII B of the California State Constitution state and local government entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the

appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

### **Unitary Property**

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

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

### **California Lottery**

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the “State Lottery”), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. The District estimates receipt of \$274,000 for such aid in 2017-18. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted. See “DISTRICT FINANCIAL INFORMATION- State Budget Measures” herein.

### **Proposition 46**

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local

election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

### **Proposition 39**

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

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

### **Jarvis v. Connell**

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

## **Proposition 1A and Proposition 22**

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

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

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

excess of such amounts, if any, will be distributed to local taxing entities in the same proportions as other tax revenues.

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

### **Proposition 30**

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

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

### **Proposition 55**

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

## **Proposition 51**

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

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

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

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

## **Proposition 2**

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

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

In the event the Governor were to declare a budget emergency, Proposition 2 would permit a smaller deposit to the BSA. A budget emergency may be called if there is a natural disaster such as an earthquake or flood or general fund revenues reach a certain minimum level. Withdrawals from the BSA,

under Proposition 2, are permitted upon a majority vote of the legislature only when the Governor has declared a budget emergency. If a budget emergency is called for two straight years in a row, in the second budget emergency year, the entire amount on hand might be withdrawn.

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

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

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

The District is required to maintain a reserve for economic uncertainties at least equal to 4% of general fund expenditures and other financing uses. On June 30, 2019, the District had unassigned available reserves of \$1,897,579. The District is unable to predict what the effect on its budget will be following implementation of these new rules. It is anticipated that if the cap is triggered, it will materially change the District’s current policies on reserves.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 22, 26, 30, 39, 46 and 98 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting the District’s revenues or their ability to expend revenues.

**PACIFIC UNION SCHOOL DISTRICT**

*The information in this section concerning the operations of the District and the District’s finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY FOR THE BONDS” and “TAX BASE FOR REPAYMENT OF THE BONDS” herein.*

**District Organization**

The District was established in 1958 and consists of an area of approximately 14 square miles in the western portion of the County along the Pacific Coastline. The District serves children in the community of Arcata which includes the areas of Pacific Manor, Vassaide Estates, Valley West, West End Road, North Bank Road and Hunts Drive. The District is located approximately 300 miles northwest of the City of Sacramento and approximately 290 miles north of the City of San Francisco. The District operates one school providing kindergarten through eighth grade education services. Additionally, Trillium Charter School operates within the District and provides kindergarten through eighth grade education services to approximately 45 students within the District. The District’s ADA for fiscal year 2019-20 is budgeted to be approximately 539 students and the District had a 2019-20 total assessed valuation of \$632,161,587. The audited financial statements for the District for the fiscal year ended June 30, 2019 are attached hereto as APPENDIX C.

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

**BOARD OF TRUSTEES**

Name	Office	Term Expires December
Jason Barr	President	2022
Ted Weller	Clerk	2020
Karan Collenberg	Member	2022
Christopher Emmons	Member	2020
Fred Hanks, Jr.	Member	2022

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Pacific Union School District, 3001 Janes Road, Arcata, California 95521, Attention: Superintendent. The District may charge a small fee for copying, mailing and handling.

## Key Personnel

The following is a listing of the key administrative personnel of the District.

Name	Title
Rene McBride	Superintendent/Principal
Marci Laffranchi	Business Manager

***Rene McBride, Superintendent/Principal.*** Ms. McBride has served as the Superintendent/Principal of the District since July 1, 2019. Prior to her position with the District, Ms. McBride was The Superintendent/Principal for Harmony Union School District from July 2017 to June 2019. From August 2010 to June 2017 Ms. McBride was the Principal for Harmony Union School District. Ms. McBride taught in Santa Cruz and Humboldt Counties from 2004 to 2010. Ms. McBride holds a Bachelor of Arts degree in Liberal Studies Elementary Education and minors in American Indian Education and Business Administration from Humboldt State University. Ms. McBride has her California Administrative credential and multiple subjects teaching credential as well as a Masters of Arts Degree in Education from University of California Santa Cruz.

## District Employees

The District employs approximately 33.2 full-time equivalent certificated academic professionals as well as 30.7 full-time equivalent classified employees, and 3.0 management, supervisor, and confidential full-time equivalent positions.

The certificated employees have assigned the Teachers Association of Pacific Union (“TAPU”) as their exclusive bargaining agent and the contract between the District and TAPU expires on June 30, 2020. The classified employees of the District are not represented by a bargaining agent.

## Insurance

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

The District participates in two joint powers agreements with the (i) North Coast Schools’ Insurance Group (“NCSIG”) and (ii) North Coast Schools’ Medical Insurance Group (“NCSMIG”). NCSIG arranges and provides workers’ compensation and property and liability insurance for its member school districts. NCSMIG arranges and provides medical, dental and vision insurance for its member school districts.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the District beyond the District’s representation on the governing boards. The relationships between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes. See also APPENDIX C – “PACIFIC UNION SCHOOL DISTRICT AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2019” – Note 6 hereto.

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker’s compensation as are adequate, customary and comparable with such insurance maintained by similarly

situated school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

**Retirement Systems**

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

**STRS.** All full-time certificated employees, as well as certain classified employees, are members of the State Teachers’ Retirement System (“STRS”). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers’ Retirement Law. The District is currently required by such statutes to contribute 17.10% of eligible salary expenditures, while participants contribute either 10.25% or 10.205% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 9.828% of teacher payroll. The State’s contribution reflects a base contribution of 2.017% and a supplemental contribution that will vary from year-to-year based on statutory criteria.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 (“AB 1469”) which implemented a new funding strategy for STRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% in fiscal year 2015-16 and will continue to increase annually until the employer contribution rate is 19.10% of covered payroll as further described below. Teacher contributions also increased from 8.00% to a total of 10.25% of pay, over the three year period from 2014-15 through 2017-18. The State’s total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annually for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the STRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

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

**SCHOOL DISTRICT EMPLOYER CONTRIBUTION RATES  
State Teachers’ Retirement Fund**

Effective Date (July 1)	School District Contribution Rate to STRS
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10*
2020	18.40*

\* The 2019-20 State Budget provided supplemental payments to STRS by the State which reduces the school district contribution rate under A.B. 1469.

The District contributed \$238,717 for fiscal year 2016-17, \$295,959 for fiscal year 2017-18 and \$355,546 for fiscal year 2018-19. Such contributions were equal to 100% of the required contributions for the respective years. The District has budgeted a contribution of \$614,064 for fiscal year 2019-20, per its Second Interim Report. With the implementation of AB 1469, the District anticipates that its contributions to STRS will increase in future fiscal years as compared to prior fiscal years. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to STRS in future fiscal years.

**PERS.** Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. The District is currently required to contribute to PERS at an actuarially determined rate, which is 19.721% of eligible salary expenditures for fiscal year 2019-20, while participants enrolled in PERS (whether enrolled prior to or subsequent to January 1, 2013) contribute 7% of their respective salaries.

On April 19, 2017, the Board of Administration of PERS adopted new contribution rates for school districts. The revised contribution rates are, as were the previous contribution rates, based on certain demographic assumptions adopted by the Board of Administration in February 2014 which took into account longer life spans of public employees from previous assumptions. Such demographic assumptions generally increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and were phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. PERS estimated that the new demographic assumptions would cost public agency employers up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that current and future experiences differ from PERS' assumptions, the required employer contributions may vary. The 2017-18 contribution rate also took into account increased payroll over 2016-17, a lowered discount rate as well as lower than predicted investment returns in prior years. On December 21, 2016, the Board of Administration of PERS voted to lower the discount rate from 7.5% to 7% over the next three years. This incremental lowering of the discount rate was intended to give employers more time to prepare the changes in employer contribution costs. The discount rate changes approved by the Board for public agency and school employees were as follows: 7.375% for fiscal year 2018-19, 7.25% for fiscal year 2019-20, and 7.00% for fiscal year 2020-21.

Effective January 1, 2020, SB 90 approved multiple appropriations to CalPERS and CalSTRS, including \$500 million from the State general fund in fiscal year 2019-20 to reduce the CalSTRS school employer contribution rate by approximately 1.03%, and \$350 million in 2020-21 to reduce the CalSTRS school employer contribution rate by approximately 0.7%. \$660 million is appropriated to the CalPERS School Pool Supplemental Pension in 2019-20 to address the school employers' share of the CalPERS unfunded liability.

The District contributed \$75,048 for fiscal year 2016-17, \$89,392 for fiscal year 2017-18 and \$109,664 for fiscal year 2018-19 which amounts equaled 100% of required contributions to PERS. The District has budgeted a contribution of \$157,280 for fiscal year 2019-20, per its Second Interim Report.

**State Pension Trusts.** Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii)

PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for PERS and STRS as of July 1, 2018.

**FUNDED STATUS**  
**STRS (DEFINED BENEFIT PROGRAM) and PERS**  
**Actuarial Valuation as of July 1, 2018**  
**(Dollar Amounts in Millions) <sup>(1)</sup>**

<u>Plan</u>	<u>Accrued Liability</u>	<u>Market Value of Trust Assets</u>	<u>Unfunded Liability</u>
Public Employees Retirement Fund (PERS)	\$92,071	\$64,846	(\$27,225)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	297,603	211,367	(101,992)

<sup>(1)</sup> Amounts may not add due to rounding.

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

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

**California Public Employees’ Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employee’s Pension Reform Act of 2013 (the “Reform Act”), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the “Implementation Date”). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding

previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

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

The District’s proportionate shares of the net pension liability of STRS and PERS, as of June 30, 2019, are as shown in the following table.

<b>Pension Plan</b>	<b>Proportionate Share of Net Pension Liability</b>
STRS	\$4,254,123
PERS	1,457,358
Total	\$5,681,481

*Source: The District.*

For further information about the District’s contributions to STRS and PERS, see Note 12 in the District’s audited financial statements for fiscal year ended June 30, 2019 attached hereto as APPENDIX C.

See also “STATE FUNDING OF EDUCATION – Potential Decline In State Revenues” hereinabove for information regarding economic volatility caused by COVID-19. The District cannot determine whether such volatility might impact the value of investments held by either PERS or STRS to fund retirement benefits or whether the District’s contribution rates to PERS or STRS might increase in the future as a result of any declines in the value of investments in response to the outbreak of COVID-19.

### **Post-Employment Benefits**

In June 2004, the Governmental Accounting Standards Board (“GASB”) pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The pronouncement required public agency employers providing healthcare benefits to retirees

to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement was staggered in three phases based upon the entity’s annual revenues, similar to the implementation for GASB Statement No. 34 and 35.

Employees who are eligible to receive retiree employment benefits other than pensions (“Health & Welfare Benefits”) while in retirement must meet specific criteria, *i.e.*, age and years with the District. For certificated employees, the District provides Health & Welfare Benefits to qualified eligible employees and their spouses who retire from the District on or after attaining age 55 with at least 12 years of service to the District for up to 5 years until age 65. The District provides Health & Welfare Benefits to management employees who retire on or after attaining age 50 with at least 5 years of service to the District for management employees until age 65. As of June 30, 2019, 3 retirees or their beneficiaries were receiving Health and Welfare Benefits and 26 employees were active plan members.

The following table shows changes in the District’s net Health and Welfare Benefits cost for the year, the amount actually contributed to fund Health and Welfare Benefits, and changes in the District’s net Health and Welfare Benefits as of June 30, 2019.

<b>Health and Welfare Benefits Cost Pacific Union School District</b>	<b>Total OPEB Liability</b>
Balance at June 30, 2018 (Valuation Date June 30, 2018)	\$ 272,124
Changes recognized for the measurement period:	
Service cost	6,786
Interest	9,248
Changes of assumptions	5,743
Benefit payments	(22,571)
Net Changes	(794)
Balance at June 30, 2019 (Measurement Date June 30, 2019)	\$271,330

*Source: The District.*

### **District Debt Structure**

**Long-Term Debt.** A schedule of changes in long-term debt for the year ended June 30, 2019 is shown below:

	<b>Balance July 1, 2018</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2019</b>	<b>Balance Due In One Year</b>
General Obligation Notes/Bonds	\$1,032,000	\$2,609,387	\$137,046	\$3,504,341	\$266,700
Net pension liability	5,310,666	370,815	--	5,681,481	--
Net OPEB Obligation	272,124	--	794	271,330	--
Accrued Vacation	8,251	667	--	8,918	8,918
Total Long-Term liabilities	<u>\$6,623,041</u>	<u>\$2,980,869</u>	<u>\$137,840</u>	<u>\$9,466,070</u>	<u>\$275,618</u>

*Source: The District.*

**General Obligation Bonds.** On April 27, 1999, the District received authorization to issue \$2,500,000 principal amount of general obligation bonds (the “1999 Authorization”) and on August 25, 1999, the District issued its \$2,500,000 General Obligation Bonds, 1999 Election Series 1999 (the “1999 Bonds”) under the 1999 Authorization. On February 9, 2012, the District issued its \$1,724,500 General Obligation Refunding Note (the “Refunding Note”) to refund the 1999 Bonds, in whole.

Pursuant to the Authorization, the District received authorization to issue \$5,600,000 aggregate principal amount of general obligation bonds. On September 20, 2018, the District issued its \$2,500,000 General Obligation Bonds, 2018 Election, Series A. The Bonds are intended to be the second and final series of bonds to be issued under the Authorization. Subsequent to the issuance of the Bonds, no further general obligation bonds, a de minimis amount of general obligation bonds will remain for issuance under the Authorization which the District does not intend to issue. See “ANNUAL DEBT SERVICE SCHEDULES” herein for the combined debt service schedule for the Refunding Note and the Bonds.

**Capital Leases**

The District entered into operating leases for facilities and equipment with terms of greater than a year. The District’s minimum lease payments under its operating leases are as follows:

<u>Year ended June 30</u>	<u>Lease Payment</u>
2020	\$8,907
2021	8,907
2022	<u>\$ 8,251</u>
Total payments	<u><u>\$26,065</u></u>

*Source: The District.*

**THE HUMBOLDT COUNTY POOLED INVESTMENT FUND**

The following information concerning the Humboldt County Pooled Investment Fund has been provided by the County Treasurer and has not been confirmed or verified by the District. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

Under California law, the District is required to pay all monies received from any source into the Humboldt County Treasury to be held on behalf of the District. The County Treasurer has authority to implement and oversee the investment of funds on deposit in commingled funds of the Treasury.

Decisions on the investment of funds in the Pooled Investment Fund are made by the County Treasurer and her deputies in accordance with established policy guidelines. In the County, investment decisions are governed by California Government Code Sections 53601 and 53635, *et seq.*, which govern legal investments by local agencies in the State of California, and a more restrictive Investment Policy proposed by the County Treasurer and adopted by the County Board of Supervisors on an annual basis. The Investment Policy is reviewed and approved annually by the County Board of Supervisors. The County Treasurer’s compliance with the Investment Policy is also audited annually by an independent certified public accountant.

**HUMBOLDT COUNTY  
 POOLED INVESTMENT FUND  
 PORTFOLIO REVIEW FOR QUARTER ENDING DECEMBER 31, 2019**

**Portfolio Composition:**

Book Value of Assets Held	\$363,007,983
Market Value of Assets Held	\$362,481,329
Assets Maturing Within 90 Days	\$60,197,648
Percentage of Market to Book Value	99.85%
Weighted Average Maturity	716

**Return on Assets:**

Total Earnings Quarter Ended	\$518,425
Total Earnings Fiscal YTD <sup>1</sup>	--
Rate of Return QTR	1.74%
Rate of Return Fiscal YTD <sup>1</sup>	--

<sup>1</sup> Not reported for current fiscal year.  
 Source: Humboldt County.

**CONTINUING DISCLOSURE**

The District has entered into a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) for the benefit of the Owners of the Bonds wherein the District has covenanted to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than 8 months following the end of the District’s fiscal year (currently ending June 30), commencing with the Annual Report for the 2019-20 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and each notice of enumerated events will be filed by the District with the Electronic Municipal Markets Access system (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth below under the caption APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

During the previous five years, the District did not timely file audited financial statements and annual operating data for its fiscal year ended June 30, 2018, and did not file or timely file notice of its failure to provide the aforementioned information on or before the date specified in its prior continuing disclosure undertakings. The District has engaged Isom Advisors, a division of Urban Futures, Inc. to serve as Dissemination Agent in connection with the Bonds.

**LEGAL MATTERS**

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

## TAX MATTERS

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

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

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

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

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

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

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

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

The initial offering price of certain Bonds (the “Premium Bonds”), may be greater than the amount payable on such bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is

determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

***Form of Bond Counsel Opinion.*** The form of the proposed opinion of Bond Counsel relating to the Bonds is attached to this Official Statement as APPENDIX A.

### **BANK QUALIFICATION**

The District has designated the Bonds as "qualified tax-exempt obligations," thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution's interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

### **LEGALITY FOR INVESTMENT**

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

### **RATINGS**

Standard & Poor's Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned its municipal bond rating of "AA" to the Insured Bonds, with the understanding that the Bond Insurer will deliver the Policy at Closing. S&P has also assigned its municipal bond rating of "A+" to the Bonds without regards to the Policy. Such ratings reflect only the view of S&P and an explanation of the significance of such ratings may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **UNDERWRITING**

D.A. Davidson & Co., as underwriter of the Bonds (the "Underwriter"), has agreed to purchase the Bonds at the purchase price of \$3,296,458.21 (reflecting the principal amount of the Bonds of \$3,096,436.00 plus an original issue premium in the amount of \$246,468.75 less an Underwriter's discount in the amount of \$46,446.54), at the rates and yields shown on the inside cover hereof.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the initial public offering prices or yields stated on the inside cover page. The initial public offering prices or yields may be changed from time to time by the Underwriter.

The Bond Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement.



**APPENDIX A**

**FORM OF BOND COUNSEL OPINION**

[Date of Delivery]

Board of Trustees  
Pacific Union School District  
3001 Janes Road  
Arcata, California 95521

Re: \$3,096,436.00 Pacific Union School District (Humboldt County, California) General  
Obligation Bonds, 2018 Election, 2020 Series B

Ladies and Gentlemen:

We have acted as bond counsel for Pacific Union School District, County of Humboldt, State of California (the "District"), in connection with the issuance by the District of \$3,096,436.00 aggregate principal amount of the District's General Obligation Bonds, 2018 Election, 2020 Series B (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53506), as amended and that certain resolution adopted by the Board of Trustees of the District on March 10, 2020 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

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

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Bonds

and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors, rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount except for certain personal property that is taxable at limited rates.

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

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

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

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

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

Respectfully submitted,

Dannis Woliver Kelley

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX B

### SELECTED INFORMATION REGARDING THE COUNTY OF HUMBOLDT

*The following information concerning the County of Humboldt is presented for information purposes only. The information has been obtained from the sources referenced as of the dates indicated. These sources are believed to be reliable but the information is not guaranteed as to accuracy or completeness, and is not, and should not be construed as, a representation by the District or the Underwriter. The District comprises only a portion of the County and the Bonds are only payable from ad valorem property taxes levied on property in the District. The Bonds are not a debt or obligation of the County.*

#### Introduction

The District is located in the County which is located in the northwest portion of the State. The County is bounded on the north by Del Norte county; on the east by Siskiyou and Trinity counties; on the south by Mendocino county and on the west by the Pacific Ocean. The southern border of the County is located approximately 225 miles north of the city of San Francisco. The County encompasses 2.3 million acres, 80 percent of which is forest lands, protected redwoods and recreation areas. The County, named for explorer and scientist Baron Alexander Von Humboldt, was formed in 1853 from parts of Trinity County and later enlarged in 1875 from portions of former Klamath County. The City of Eureka is the County seat.

The County is governed by a 5-member Board of Supervisors elected by district to overlapping terms. The County administrative Officer manages the activities of the County departments and the County Counsel provides legal advice to the Board of Supervisors. Other elected officials include Assessor, Auditor-Controller, Sheriff, Coroner, District Attorney, Clerk-Recorder and Treasurer-Tax Collector.

#### Population

The following table shows historical population statistics for the cities in the County as well as unincorporated areas of the County.

#### CITIES AND UNINCORPORATED AREAS OF THE COUNTY OF HUMBOLDT (Calendar Years 2014 through 2019)

	2014	2015	2016	2017	2018	2019
Arcata	17,945	18,122	18,242	18,388	18,398	18,078
Blue Lake	1,281	1,299	1,306	1,301	1,280	1,243
Eureka	26,635	26,355	26,348	26,500	26,362	26,977
Ferndale	1,366	1,370	1,367	1,373	1,367	1,335
Fortuna	11,885	11,914	11,907	12,008	12,042	12,084
Rio Dell	3,333	3,326	3,322	3,355	3,348	3,326
Trinidad	339	330	325	335	340	360
Balance of County	72,195	72,467	72,600	73,170	72,865	71,930
County Total	134,977	135,183	135,417	136,430	136,002	135,333

Based on 2010 Census benchmark and Population Estimates for Cities, Counties, and State.  
Source: California State Department of Finance.

## Employment

The County, State and United States civilian labor force figures are shown in the following table for the years 2013 through 2018. The County figures are County-wide and may not necessarily reflect employment trends in the District.

### HUMBOLDT COUNTY, CALIFORNIA, AND UNITED STATES Labor Force, Employment, and Unemployment<sup>(1)</sup>

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate<sup>(2)</sup></u>
<b>2013</b>				
Humboldt County	62,420	58,010	4,400	7.1%
California	18,596,800	16,933,300	1,663,500	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
<b>2014</b>				
Humboldt County	61,960	58,280	3,680	5.9
California	18,726,400	17,474,600	1,251,800	6.7
United States	155,922,000	146,305,000	9,617,000	6.2
<b>2015</b>				
Humboldt County	62,240	58,910	3,330	5.3
California	18,981,800	17,798,600	1,183,200	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
<b>2016</b>				
Humboldt County	62,210	59,380	2,830	4.6
California	19,093,700	18,048,800	1,044,800	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
<b>2017</b>				
Humboldt County	62,660	60,460	2,200	3.5
California	19,312,000	18,393,100	918,900	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
<b>2018</b>				
Humboldt County	63,000	60,800	2,200	3.6
California	19,398,200	18,582,800	815,400	4.2
United States	162,075,000	155,761,000	6,314,000	3.9

<sup>(1)</sup> Data reflects employment status of individuals by place of residence.

<sup>(2)</sup> Unemployment rate is based on unrounded data.

Source: California State Employment Development Department and U.S. Department of Labor.

## Industry

Government is the largest employer in the County followed by trade, transportation and utilities and educational and health services. The table below shows the estimated employment by industry group for 2014 through 2019.

**COUNTY OF HUMBOLDT  
EMPLOYMENT BY INDUSTRY  
ANNUAL AVERAGES  
(2014 through 2019 by Class of Work)**

	2014	2015	2016	2017	2018	2019
Agriculture total	800	800	900	800	900	800
Mining, logging and construction	1,800	1,900	2,000	2,200	2,400	2,600
Manufacturing	2,100	2,100	2,100	2,100	2,100	2,200
Trade, transportation and utilities	9,500	9,700	9,800	10,000	9,800	9,700
Information	500	500	400	400	400	400
Finance	1,500	1,600	1,700	1,700	1,700	1,800
Professional and business services	2,600	2,700	2,800	2,900	3,000	3,600
Educational and health services	8,000	8,400	8,800	8,900	9,000	9,500
Leisure and hospitality	5,200	5,700	5,700	5,800	6,000	5,800
Other Services	1,900	1,900	1,900	1,900	1,900	2,000
Government	14,200	14,000	14,300	14,300	14,900	15,100
Non Agriculture Total	47,300	48,500	49,400	50,300	51,200	52,600

Source: California State Employment Development Department.

[Remainder of page intentionally blank]

## Major Employers Within the County

The County is host to a diverse mix of major employers representing industries ranging from agriculture and government to health services. The following table lists the County's major employers.

### COUNTY OF HUMBOLDT 2018 MAJOR EMPLOYERS

<u>Employer</u>	<u>Industry</u>
Bettendorf Trucking	Trucking
Blue Lake Casino & Hotel	Casinos
Costco Wholesale	Wholesale Clubs
Eureka City Clerk	Government
Eureka High School	Schools
Ferrellgas	Gas-Propane Stations
Green Diamond Resource Co.	Foresters
Humboldt County Dept. Public Health	Government
Humboldt County Mental Health	Hospitals
Newmarket International Inc.	Hospitality Training
Pacific Choice Seafood Inc.	Prepared Fish/Seafood
Umpqua Bank	Banks
Walmart	Department Stores

Source: County of Humboldt, State of California Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018.

## Construction Activity

Building activity for the years 2014 through 2018 in the County is shown in the following table.

### HUMBOLDT COUNTY Total Building Permit Valuations (2014 through 2018)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Permit Valuation</u>					
New Single-family	\$24,382,239	\$25,200,053	\$29,123,279	\$32,530,720	\$32,487,934
New Multi-family	5,381,826	3,255,799	2,435,316	4,786,690	5,897,261
Res. Alterations/Additions	<u>13,773,660</u>	<u>11,341,334</u>	<u>15,845,117</u>	<u>9,874,966</u>	<u>12,965,558</u>
Total Residential	\$43,537,725	\$39,797,186	\$47,403,712	\$47,403,712	\$51,350,753
New Commercial	\$24,225,934	\$4,640,781	\$15,850,713	\$11,057,451	\$13,378,024
New Industrial	2,924,925	2,534,094	2,302,180	211,677	2,129,175
New Other	5,204,116	5,272,874	4,657,431	4,613,599	7,944,923
Com. Alterations/Additions	<u>14,798,701</u>	<u>48,406,312</u>	<u>10,807,611</u>	<u>17,727,216</u>	<u>21,033,578</u>
Total Nonresidential	\$ 7,153,676	\$60,854,061	\$33,617,935	\$33,609,943	\$44,455,700
<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

The table below shows the number of permits and taxable transactions in the County between 2011 and 2016, the most recent data available.

### COUNTY OF HUMBOLDT Valuation of Taxable Transactions (Fiscal Years 2011 through 2016)

Year	Retail Permits	Taxable Transactions- Retail*	Total Permits	Taxable Transactions- Total*
2011	3,172	1,224,525	4,491	1,698,178
2012	3,208	1,298,773	4,499	1,768,170
2013	3,343	1,370,743	4,600	1,869,677
2014	3,400	1,412,669	4,706	1,899,619
2015	3,277	1,474,165	5,253	1,985,209
2016	3,325	1,589,169	5,527	2,128,331

\* In thousands.

Source: California Board of Equalization Taxable Sales in California.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX C**

**PACIFIC UNION SCHOOL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2019**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**PACIFIC UNION SCHOOL DISTRICT**  
**County of Humboldt**  
**Arcata, California**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2019**

**With**

**INDEPENDENT AUDITOR'S REPORT**

PACIFIC UNION SCHOOL DISTRICT

TABLE OF CONTENTS

June 30, 2019

Page  
Number

INTRODUCTION SECTION

Title Page	
Table of Contents	

FINANCIAL SECTION

Independent Auditor's Report on Financial Statements	1
--	---

Management's Discussion and Analysis (Required Supplementary Information)	4a
---	----

Basic Financial Statements

Government-wide Financial Statements:	
Statement of Net Position	5
Statement of Activities	6

Fund Financial Statements:	
Balance Sheet – Governmental Funds	7
Reconciliation of the Governmental Funds	
Balance Sheet to the Statement of Net position	8
Statement of Revenues, Expenditures, and Changes in	
Fund Balances – Governmental Funds	9
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement	
of Activities	10
Statement of Fiduciary Net position – Fiduciary Funds	11
Notes to the Financial Statements	12

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances:	
Budget and Actual (GAAP) - Major Funds	
General Fund	48
Building Fund	49

Schedule of Changes in the Net OPEB Liability and Related Ratios for the Last Ten Years	50
--	----

PACIFIC UNION SCHOOL DISTRICT

TABLE OF CONTENTS

June 30, 2019

	Page Number
Schedule of the District's Proportionate Share of the Net Pension Liability for the Last Ten Years - California Public Employees' Retirement System	51
Schedule of the District's Proportionate Share of the Net Pension Liability for the Last Ten Years - California State Teachers' Retirement System	52
Schedule of Contributions for the Last Ten Years - California Public Employees' Retirement System	53
Schedule of Contributions for the Last Ten Years - California State Teachers' Retirement System	54
 SUPPLEMENTARY INFORMATION	
Combining Schedules – Nonmajor Funds: Combining Balance Sheet	55
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance	56
Organization	57
Schedule of Average Daily Attendance	58
Schedule of Instructional Time	59
Schedule of Financial Trends and Analysis	60
Schedule of Charter Schools	61
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	62

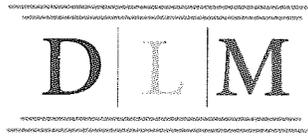
PACIFIC UNION SCHOOL DISTRICT

TABLE OF CONTENTS

June 30, 2019

	Page Number
OTHER INDEPENDENT AUDITOR'S REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	63
Independent Auditor's Report on State Compliance	65
FINDINGS AND QUESTIONED COSTS SECTION	
Schedule of Findings and Questioned Costs	68
Corrective Action Plans	72
Summary Schedule of Prior Audit Findings	73

John R. Goff, CPA  
Mark G. Wetzel, CPA  
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP  
*Certified Public Accountants*

Kenneth X. Stringer, CPA  
Aaron S. Weiss, CPA  
Matthew J. Hague, CPA

## PACIFIC UNION SCHOOL DISTRICT

### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Trustees  
Pacific Union School District  
3001 Janes Road  
Arcata, California 95521

#### **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 Pacific Union School District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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

PACIFIC UNION SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -  
CONTINUED

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 District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedule of changes in the net OPEB liability and related ratios, and the schedules of pension liabilities and contributions on pages 4a through 4g and 48 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.

PACIFIC UNION SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS -  
CONTINUED

*Other Information*

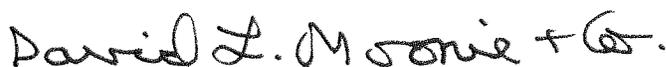
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements and other supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, the schedule of average daily attendance, the schedule of instructional time, the schedule of financial trends and analysis, and the reconciliation of annual financial and budget report with audited financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the other supplementary schedules listed in the first sentence of this paragraph are fairly stated in all material respects in relation to the financial statements as a whole.

The Organization Schedule and the Schedule of Charter Schools have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering the District's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Eureka, California

December 5, 2019

PACIFIC UNION SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

---

**Introduction**

Pacific Union School District Management’s Discussion and Analysis section of the audit is 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. The accounting rules require this discussion and analysis, and make reporting of district’s finances similar to that of private business.

**The Pacific Union School District**

The district serves the residents of the community of Arcata, which includes the areas of Pacific Manor, Vassaide Estates, Valley West, Curtis Heights, Woodland Heights, West End Road, North Bank Road and Hunt’s Drive. The district is comprised of two schools, Pacific Union Elementary School and Trillium Charter School. At the time of this report, the district is serving 577 students at Pacific Union Elementary School and 45 students at Trillium Charter School.

**The Governing Board’s Mission Statement**

The mission of the school is to provide a high quality educational program for the students so each student will acquire the knowledge, skills, and attitudes necessary for success in education and for independent, lifelong learning. The programs will be comprehensive, consistent from grade to grade, and updated periodically to reflect current educational research and district needs.

**Overview of the Financial Statements**

The report consists of three parts: Management’s Discussion and Analysis (this section), the basic financial statements, and required supplementary information.

The first statements are *district-wide financial statements* that provide information about the district’s overall financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the district operations in *more detail* than the district-wide statements.

The *governmental funds* statements tell how basic services, like regular and special education, were financed as well as what remains for future spending.

*Fiduciary fund* statements provide information about the financial relationship in which the district acts solely as a *trustee or agent* for the benefit of others who own the resources.

PACIFIC UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Financial Reports**

The two financial reports, the Statement of Net Position and Statement of Activities, report the district-wide financial condition and activities. In contrast, the individual fund statements focus on reporting the district's operations in more detail. The fund financial statements look at the district's major funds with all other non-major funds presented in total in one column. The major funds of the district are:

- General Fund
- Building Fund Fund

The non-major funds of the district include the Charter School, Cafeteria, Capital Outlay, and Debt Service funds.

**Statement of Net Position**

The district is required to account for the value of fixed assets and include those values as part of the financial statements. The value of all assets, including buildings, land, and equipment are displayed. Depreciation is included. Land is accounted for at purchase value, not market value, and is not depreciated. The valuation of school buildings is based on the historical costs. The table below summarizes the value of district assets.

Pacific Union School District		
<b>NET POSITION</b>		
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current & Other Assets	\$5,737,145	\$3,589,499
Capital Assets	\$4,564,524	\$4,249,896
<b>Total Assets</b>	<b>\$10,301,669</b>	<b>\$7,839,395</b>
Deferred Outflows of Resources	\$1,558,064	\$1,558,596
Current Liabilities	\$165,693	\$81,175
Noncurrent Liabilities	\$9,466,070	\$6,623,041
<b>Total Liabilities</b>	<b>\$9,631,763</b>	<b>\$6,704,216</b>
Deferred Inflows of Resources	659,093	300,496
Net Investment in Capital Assets	\$3,010,023	\$3,217,896
Restricted	\$2,808,346	\$839,639
Unrestricted	(\$4,249,492)	(\$1,664,255)
<b>Total Net Position</b>	<b>\$ 1,568,877</b>	<b>\$2,393,280</b>

PACIFIC UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Beginning in 2014-15, employers who participate in pension plans are required to recognize a portion of the liability in their financial statements. The Pacific Union School District is reporting the liabilities related to the CalPERS and CalSTRS retirement systems. This net pension liability is an accrued liability and is payable in the future through employer retirement contribution rates.

**Statement of Activities**

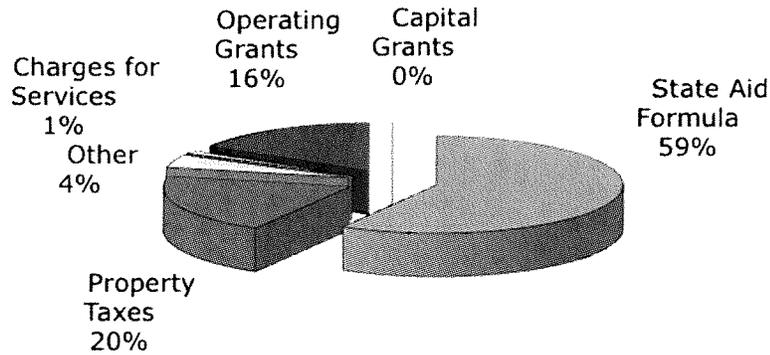
In 2018-2019, total revenues exceeded expenses, which decreased net position by \$824,403. The following table summarizes the change to net position from fiscal year 2017-2018 to 2018-2019.

Pacific Union School District		
<b>STATEMENT OF ACTIVITIES</b>		
<b>Revenues:</b>	<b><u>2018-2019</u></b>	<b><u>2017-2018</u></b>
General Revenues:		
State Aid Formula	\$4,194,027	\$3,712,823
Property Taxes	\$1,411,765	\$1,370,079
Other	\$302,925	\$336,328
Charges for Services	\$67,330	\$63,121
Operating Grants/Contrib.	\$1,162,335	\$892,576
Capital Grants/Contrib.	\$0	\$0
<b>Total Revenues</b>	<b>\$7,138,382</b>	<b>\$6,374,927</b>
<b>Expenses</b>		
Instructional-related	\$5,850,018	\$5,047,642
Pupil Services	\$709,421	\$536,481
General Administration	\$343,649	\$341,578
Plant Services	\$744,584	\$427,800
Ancillary Services	\$41,177	\$31,619
Community Service	\$203,430	\$149,379
Debt Service	\$70,506	\$42,684
<b>Total Expenses</b>	<b>\$7,962,785</b>	<b>\$6,577,183</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$(824,403)</b>	<b>\$(202,256)</b>

PACIFIC UNION SCHOOL DISTRICT

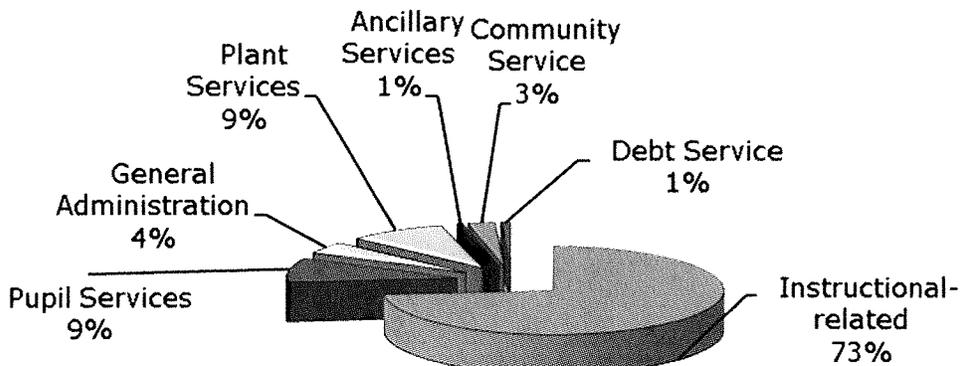
MANAGEMENT'S DISCUSSION AND ANALYSIS

**PACIFIC UNION SCHOOL DISTRICT  
REVENUES 2018-2019**



The total cost of programs and services was \$7,962,785. District expenses are predominately related to educating and caring for students (73%) as shown in the table below. The purely administrative activities of the district accounted for 4% of total costs.

**PACIFIC UNION SCHOOL DISTRICT  
EXPENSES 2018-2019**



PACIFIC UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Financial Highlights**

- Strong reserve levels were maintained in the 2018-2019 year. Although the State only requires a 4% Unrestricted Reserve, the Governing Board has established a policy requiring an 8% Unrestricted Reserve.
- Net position decreased from \$2,393,280 at June 30, 2018, to \$1,568,877 at June 30, 2019.

**General Fund Budgetary Highlights**

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:

- Budget revisions to the adopted budget required after approval of the State budget.
- Budget revisions to reflect changes in staffing.
- Budget revisions to reflect collective bargaining agreements.
- Budget revisions to adjust program revenues and expenditures to final awards and spending plans.

The District's General Fund budget and actual amounts for 2018-19 were as follows:

**GENERAL FUND  
Budget vs. Actual**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actuals</u>	<u>Over (Under) Budget</u>
Total Revenues	\$5,779,116	\$5,969,392	\$6,186,334	\$216,942
Total Expenditures	5,717,837	6,274,992	6,125,511	149,481
Other Sources (Uses)	46,259	46,780	45,211	(1,569)
Revenues Over (Under) Expenditures and Other Sources (Uses)	\$107,538	\$(258,820)	\$ 106,034	\$364,854

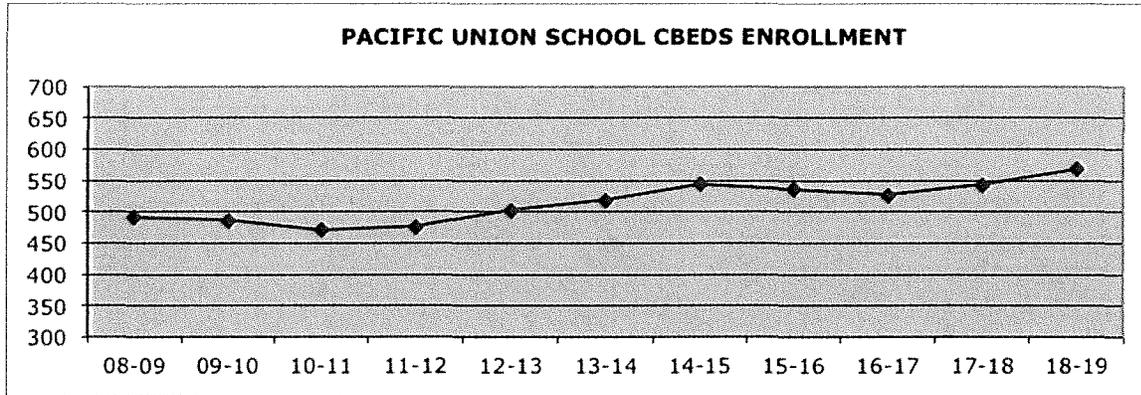
**Financial Condition of General Fund**

The district continues to maintain a solid financial condition. The combined General, Special Reserve, and Retiree Benefit Funds ending balance is \$3,139,593. District reserves cover cash deficits caused by state deferrals, protect educational programs from revenue uncertainties, provide financial flexibility, and provide protection from increases in statutory costs or unanticipated one-time outlays. The reserve remains above required levels. The excellent financial condition of the district is a result of the Governing Board's requirements and policies, good fiscal management by staff, and decision-making based on the long-term impact.

**PACIFIC UNION SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Enrollment**

The chart below tracks the change in the October California Basic Education Data System (CBEDS) enrollment from 2008-2009 to 2018-2019. Enrollment during this time ranged from a low of 470 to a high of 567.



**District Indebtedness**

As of June 30, 2019, the district has incurred \$9,466,070 of noncurrent liabilities as shown in the table below (more detailed information may be found in the Notes section to the financial statements). The largest source of indebtedness is the net pension liability of \$5,681,481. Another source of indebtedness is General Obligation Bonds, which is backed up by property tax increases voted on by local residents.

Pacific Union School District		
<b>NONCURRENT OBLIGATIONS</b>		
	<u>2018-2019</u>	<u>2017-2018</u>
Compensated Absences	\$8,918	\$8,251
Net Pension Liability	\$5,681,481	\$5,310,666
Net OPEB Obligation	\$271,330	\$272,124
<b>Total</b>	<b>\$9,466,070</b>	<b>\$6,623,041</b>

In June of 2018, district voters approved a \$5,600,000 General Obligation Bond. As of June 30, 2019, \$2,500,000 in bonds had been sold.

**PACIFIC UNION SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**District Capital Assets**

The District's capital assets at June 30, 2019 and 2018 were as follows:

Pacific Union School District		
<b>CAPITAL ASSETS</b>		
	<u>2018-2019</u>	<u>2017-2018</u>
Buildings	\$8,732,736	\$8,732,736
Improvements	382,188	340,283
Equipment	431,814	396,527
Work in progress	453,141	1,754
Land	6,500	6,500
Total Capital Assets	10,006,379	9,477,800
Less: Accumulated depreciation	(5,441,885)	(5,227,903)
Capital Assets, Net of Depreciation	\$4,564,494	\$4,249,897

**Factors Bearing on the District's Financial Management**

At the time the financial statements were prepared and audited, the district was aware of three circumstances that could significantly affect its financial health in the future:

- Considerable uncertainties in future state revenues and the impact of lower state and federal revenue on the district's budget.
- Deferrals of state funding.
- Enrollment fluctuations.

**Contacting the District's Financial Management**

The financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the district's finances and to show the district accountability for the money it receives. If you have questions regarding this report or need additional financial information, please contact the Superintendent, Rene McBride.

Pacific Union School District, 3001 Janes Road, Arcata, California 95521.

PACIFIC UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 5,507,567
Accounts receivable	227,766
Stores	1,812
Invested in capital assets, net of depreciation	4,564,524
Total assets	<u>10,301,669</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	1,552,781
Deferred outflows related to other post employment benefits	5,283
Total deferred outflows of resources	<u>1,558,064</u>
Total assets and deferred outflows of resources	<u><u>\$ 11,859,733</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 122,582
Unearned revenue	43,111
Long-term liabilities:	
Due within one year	275,618
Due in more than one year	9,190,452
Total liabilities	<u>9,631,763</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	659,093
Total deferred inflows of resources	<u>659,093</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,010,023
Restricted for:	
Capital projects	1,949,840
Debt Service	226,869
Educational programs	603,971
Other purposes	27,666
Unrestricted	(4,249,492)
Total net position	<u><u>\$ 1,568,877</u></u>

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

PACIFIC UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Instruction	\$ 5,155,768	\$ 21,530	\$ 811,616	\$ (4,322,622)
Instruction-related services:				
Supervision of instruction	4,769		4,395	(374)
Instructional library, media and technology	127,545		10,273	(117,272)
School site administration	561,936		41,103	(520,833)
Pupil services:				
Home-to-school transportation	74,976		2,733	(72,243)
Food services	272,660	41,598	167,374	(63,688)
All other pupil services	361,785	2,257	48,991	(310,537)
General administration:				
Data processing	12,262			(12,262)
All other general administration	331,387	1,945	18,168	(311,274)
Plant services	744,584		51,074	(693,510)
Ancillary services	41,177		1,024	(40,153)
Community services	203,430		5,584	(197,846)
Interest on long-term debt	70,506			(70,506)
Total governmental activities	<u>\$ 7,962,785</u>	<u>\$ 67,330</u>	<u>\$ 1,162,335</u>	<u>\$ (6,733,120)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				\$ 1,237,194
Taxes levied for debt service				174,571
Federal and state aid not restricted to specific purposes				4,194,027
Interest and investment earnings				58,399
Interagency revenues				6,523
Local revenues				238,003
Total general revenues				5,908,717
Change in net position				(824,403)
Net position beginning				2,393,280
Net position ending				<u>\$ 1,568,877</u>

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

PACIFIC UNION SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2019

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash in County Treasury	\$ 3,050,837	\$ 2,021,284	\$ 434,446	\$ 5,506,567
Cash in revolving fund	1,000			1,000
Accounts receivable	159,614	19,332	48,821	227,767
Stores inventory			1,812	1,812
Total assets	<u>3,211,451</u>	<u>2,040,616</u>	<u>485,079</u>	<u>5,737,146</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 3,211,451</u>	<u>\$ 2,040,616</u>	<u>\$ 485,079</u>	<u>\$ 5,737,146</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 28,747	\$ 90,776	\$ 3,060	\$ 122,583
Unearned revenue	43,111			43,111
Total liabilities	<u>71,858</u>	<u>90,776</u>	<u>3,060</u>	<u>165,694</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	1,000		1,812	2,812
Restricted	557,291	1,949,840	301,215	2,808,346
Assigned	690,928		178,992	869,920
Unassigned	1,890,374			1,890,374
Total fund balances	<u>3,139,593</u>	<u>1,949,840</u>	<u>482,019</u>	<u>5,571,452</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,211,451</u>	<u>\$ 2,040,616</u>	<u>\$ 485,079</u>	<u>\$ 5,737,146</u>

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

PACIFIC UNION SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

June 30, 2019

Total Fund Balances - governmental funds balance sheet: \$ 5,571,452

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

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

Capital assets at historical cost	\$ 10,006,379	
Accumulated depreciation	(5,441,855)	
Net		4,564,524

Deferred outflows and inflows of resources related to other postemployment benefits (OPEB): In governmental funds, deferred outflows and inflows of resources related to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred inflows and outflows of resources related to OPEB are reported, as follows:

Deferred outflows of resources relating to OPEB	5,283
---	-------

Noncurrent liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including noncurrent liabilities, are reported. Noncurrent liabilities, relating to governmental activities consist of:

General obligation bonds payable	\$ 3,504,341	
Net pension liability	5,681,481	
Other postemployment benefits payable	271,330	
Compensated absences payable	8,918	
Total		(9,466,070)

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the Statement of Net Position, deferred outflows and inflows of resources relating to pensions are reported as follows:

Deferred outflows of resources related to pensions	\$ 1,552,781	
Deferred inflows of resources related to pensions	(659,093)	
Total		893,688

Total Net Position, Governmental Activities	\$ 1,568,877
---	--------------

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

PACIFIC UNION SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For The Year Ended June 30, 2019

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local control funding formula sources:	\$ 4,774,399		\$ 378,420	\$ 5,152,819
Federal	210,923		165,725	376,648
Other state	690,153		80,252	770,405
Other local	510,859	\$ 30,389	244,437	785,685
Total revenues	6,186,334	30,389	868,834	7,085,557
Expenditures:				
Instruction	4,176,634		278,226	4,454,860
Instruction-related services	511,261		81,051	592,312
Pupil services	424,221		253,228	677,449
Ancillary services	17,219			17,219
Community services	177,772		1,203	178,975
General administration	293,095		12,235	305,330
Plant services	525,309	627,802	45,008	1,198,119
Debt service - principal			133,400	133,400
Debt service - interest			74,152	74,152
Total expenditures	6,125,511	627,802	878,503	7,631,816
Excess (deficiency) of revenues over	60,823	(597,413)	(9,669)	(546,259)
Other financing sources (uses):				
Proceeds from debt		2,547,253	62,134	2,609,387
Operating transfers in	63,164		17,953	81,117
Operating transfers out	(17,953)		(63,164)	(81,117)
Total other financing sources (uses)	45,211	2,547,253	16,923	2,609,387
Excess of revenues and other financing sources over expenditures and other uses	106,034	1,949,840	7,254	2,063,128
Fund balances, July 1, 2018	3,033,559		474,765	3,508,324
Fund balances, June 30, 2019	\$ 3,139,593	\$ 1,949,840	\$ 482,019	\$ 5,571,452

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

PACIFIC UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2019

Total changes in Fund Balances, governmental funds: \$ 2,063,128

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

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

Expenditures for capital outlay	\$ 528,579	
Depreciation expense	<u>(213,952)</u>	
Net		314,627

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 133,400

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (667)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year the difference between OPEB costs and actual employer contributions was: 6,077

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (735,227)

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (2,605,741)

Changes In Net Position, Governmental Activities \$ (824,403)

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

PACIFIC UNION SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS

June 30, 2019

	Agency Funds
	Student Body Fund
<b>ASSETS</b>	
Cash on hand and in banks	\$ 70,228
Total assets	70,228
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Total deferred outflows of resources	-
Total assets and deferred outflows of resources	\$ 70,228
 <b>LIABILITIES</b>	
Due to student groups	\$ 70,228
Total liabilities	70,228
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Total deferred inflows of resources	-
 <b>NET POSITION</b>	
Total net position	\$ -

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

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

1. Summary of Significant Accounting Policies

A. Accounting Policies

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

B. Reporting Entity

The District has no oversight responsibility over any other governmental unit and is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board pronouncements, since the Board of Trustees of the District is elected by the public and has decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. There are no component units included within the reporting entity.

The District participates in two joint ventures under joint powers agreements (JPAs): the North Coast Schools' Insurance Group and the North Coast Schools' Medical Insurance Group. The relationship between the District and the JPAs is such that neither JPA is a component unit of the District for financial reporting purposes.

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 component units.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the 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 governmental funds.

The government-wide statement of activities presents a comparison between direct

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

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.

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.

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

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

thereafter to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined "available" for school districts as 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. 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 be available before it can be recognized.

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, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures. 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, non-major, and fiduciary funds as follows:

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

Major Governmental Funds:

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

The Building Fund is used to account for the proceeds and expenditures of bond funds.

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 two Non-major Special Revenue Funds: the Charter School Fund and the Cafeteria Fund.

Capital Outlay Fund is used for the purpose of accumulating funds and tracking expenditures for major capital outlay projects.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one debt service fund: the Bond Interest and Redemption Fund.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District is the agent for one fiduciary fund. The Student Body Fund is used to account for the activities of student groups.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government 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 the District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the major 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.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

G. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Equity

1. Deposits and Investments

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

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Humboldt 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.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq.

The Humboldt County Treasury has no investments in derivatives.

The District does not have a specific policy which relates to interest rate risk.

2. Stores Inventories and Prepaid Expenditures

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

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

3. Capital Assets

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

Capital assets are being depreciated using the straight-line method over the following

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

4. Unearned Revenue

Unearned revenue arises when resources are received before the "measurable" and "available" revenue recognition criteria have been satisfied, or when resources are received prior to the incurrence of qualifying expenditures. Certain grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

5. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until that future period. The items that qualified for reporting in this category are all related to the District's net pension liability and the total OPEB (other postemployment benefits) liability, and are listed in detail in subsection B of Note 12, "Pension Plans" and in Note 11 "Post-Employment Benefits Other Than Pension Benefits" in these financial statements.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that future period. The items that qualified for reporting in this category are all related to the District's net pension liability and the total OPEB (other postemployment benefits) liability, and are listed in detail in subsection B of Note 12, "Pension Plans" and in Note 11 "Post-Employment Benefits Other Than Pension Benefits" in these financial statements.

The District's deferred inflows and outflows will be taken into the calculation of expense and liability in future Statements of Net Position and Statements of

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

Activities using the following amortization periods:

	<u>Amortization Period (Years)</u>
Pension Expense and Net Pension Liability:	
Pension contributions subsequent to measurement date	1
Changes in net pension liability due to the difference between projected and actual earnings on pension plan investments	5
Differences between actual and expected experience - CalPERS	3.9
CalSTRS	7
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	5
Change in actuarial assumptions	3.9
OPEB Expense and Total OPEB Liability:	
OPEB change in actuarial assumptions	12.5

6. Compensated Absences

All vacation pay 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.

7. Interfund Activity

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

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

8. Pensions

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

9. Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments, if any, are reported at fair value. Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

10. Noncurrent Obligations

In the government-wide financial statements, noncurrent debt and other noncurrent obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable, if any, are reported net of applicable bond premium or discount. Bond issuance costs, if any, are expensed as incurred. The District's proportionate share of CalSTRS' and CalPERS' net pension liability is reported and adjusted annually based on actuarial computation.

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 discount is reported as other financing sources/uses.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

11. Fund Balance

GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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

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

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Governing Board may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

As of June 30, 2019, fund balances were composed of the following:

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Revolving cash	\$ 1,000			\$ 1,000
Inventories			\$ 1,812	1,812
Total Nonspendable	<u>1,000</u>	<u>-</u>	<u>1,812</u>	<u>2,812</u>
Restricted:				
Lottery Instructional Materials	138,677		3,516	142,193
Medi-Cal Billing Option	6,278			6,278
California Clean Energy Jobs Act	19,916		42,473	62,389
Ongoing and major maint. account	323,709			323,709
Cafeteria programs			27,666	27,666
Low-Performing Students Block Grant	47,425			47,425
Sums Grant	16,363			16,363
Classified School Employee Prof. Dev.	4,403		691	5,094
Capital outlay		\$ 1,949,840		1,949,840
Debt service			226,869	226,869
Other restrictions	520			520
Total Restricted	<u>557,291</u>	<u>1,949,840</u>	<u>301,215</u>	<u>2,808,346</u>
Assigned:				
Medi-Cal Reimbursement	26,836			26,836
Daycare	184,051			184,051
Lottery	58,973		2,002	60,975
Charter School reserve			176,990	176,990
Instructional materials	100,000			100,000
Technology	113,862			113,862
Deferred maintenance	200,000			200,000
Retiree benefits	7,206			7,206
Total Assigned	<u>690,928</u>	<u>-</u>	<u>178,992</u>	<u>869,920</u>
Unassigned:				
Designated for economic uncertainties	1,890,374			1,890,374
Total Unassigned	<u>1,890,374</u>	<u>-</u>	<u>-</u>	<u>1,890,374</u>
Total Fund Balance	<u>\$ 3,139,593</u>	<u>\$ 1,949,840</u>	<u>\$ 482,019</u>	<u>\$ 5,571,452</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's Governing Board has

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

provided otherwise in its commitment or assignment actions.

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to no less than eight percent of General Fund expenditures and other financing uses.

12. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

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.

13. Local Control Funding Formula/Property Taxes

The District's local control funding formula ("LCFF") is received from a combination of local property taxes, state apportionments, and other local sources.

The County of Humboldt is responsible for assessing, collecting, and apportioning

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The County of Humboldt 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-Controller reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF 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 LCFF 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.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

I. New Governmental Accounting Standards Board (GASB) Standards

GASB Statement no. 84 - In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This standard's primary objective is to establish criteria for identifying fiduciary activities and to provide guidance on reporting those activities. The Statement is effective for periods beginning after December 15, 2019. The District has not determined this Statement's impact on the financial statements.

GASB Statement no. 87 - In June 2017, GASB issued Statement No. 87, *Leases*. This

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

standard's primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement is effective for periods beginning after December 15, 2019. The District has not determined this Statement's impact on the financial statements.

2. Cash and Investments

Cash and investments at June 30, 2019 consisted of the following:

Statement of net position and Governmental Funds

balance sheet:

Cash in Revolving Fund	\$ 1,000
Pooled Cash in County Treasury	<u>5,506,567</u>
Sub-total	<u>\$ 5,507,567</u>

Fiduciary Funds:

Cash in bank	<u>\$ 70,228</u>
Total Cash and Investments	<u><u>\$ 5,577,795</u></u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. Cash in banks at June 30, 2019 consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Cash in Revolving Fund	<u>\$ 1,000</u>	<u>\$ 1,033</u>
Fiduciary Funds Cash in bank	<u>70,228</u>	<u>71,181</u>
Total	<u><u>\$ 71,228</u></u>	<u><u>\$ 72,214</u></u>

The bank balance is the balance prior to adjustment for items that had not yet cleared the bank as of June 30, 2019.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Humboldt County Treasury as part of the common investment pool. 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, banker's acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1 - inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 - inputs include:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical assets or liabilities in inactive markets;
- c) Inputs other than quoted prices that are observable for the asset or liability;
- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are significant unobservable inputs.

As of June 30, 2019, the District held no individual investments. The District's fair value measurements were as follows at June 30, 2019:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level</u>
Pooled Cash in County Treasury	<u>\$ 5,510,950</u>	<u>2</u>

The District has not recorded fair value adjustments in the basic financial statements as they were determined to be immaterial to the District.

Credit Risk - Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County Treasurer's investments consist of 69.71 percent federal agencies, 22.64 percent money markets, 1.32 percent municipal bonds, 3.18 percent treasury coupons, 0.80 percent medium term notes, and 2.35 percent certificates of deposit. The S & P credit ratings for these investments include AAA, AA, A+e, and Ae, and non-rated for certificates of deposit and the California State Treasurer's local agency investment fund.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of a failure of the counter party (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits or investments, except that the California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2019, none of the District's deposits were exposed to custodial credit risk.

Interest Rate Risk – Investments

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways the County of Humboldt Treasurer manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of its portfolio is maturing or coming close to maturity to ensure the cash flow and liquidity of operations. The weighted average maturity of the County of Humboldt Treasurer's investments is 526 days.

3. Receivables

Receivables at June 30, 2019 consist of the following:

	General Fund	Building Fund	Other Governmental Funds	Total
Federal Government:				
Federal Programs	\$ 88,230		\$ 25,786	\$ 114,016
State Government:				
Categorical Aid Programs	37,478		16,789	54,267
Lottery	15,374		1,538	16,912
Total State Government	<u>52,852</u>	-	<u>18,327</u>	<u>71,179</u>
Local Government:				
Other	3,800	\$ 9,736	3,440	16,976
Interest	14,732	9,596	1,268	25,596
Total Local Government	<u>18,532</u>	<u>19,332</u>	<u>4,708</u>	<u>42,572</u>
Total Receivables	<u>\$ 159,614</u>	<u>\$ 19,332</u>	<u>\$ 48,821</u>	<u>\$ 227,767</u>

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

4. Interfund Transactions

Interfund Receivables/Payables

As of June 30, 2019 there were no interfund receivables or payables.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2018-2019 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 63,164	\$ 17,953
Charter School Fund	15,143	63,164
Cafeteria Fund	2,810	
Total	\$ 81,117	\$ 81,117

Transfer from the Charter School Fund to the General Fund was for administrative services and oversight.

Transfer from the General Fund to the Charter School Fund was for special education services incurred by the Charter School.

Transfer from the General Fund to the Cafeteria Fund was for operating costs of the Cafeteria program.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

5. Capital Assets

Capital asset activity for the period ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,500			\$ 6,500
Work in Progress	1,754	\$ 453,141	\$ 1,754	453,141
Total capital assets not being depreciated	<u>8,254</u>	<u>453,141</u>	<u>1,754</u>	<u>459,641</u>
 <i>Capital assets being depreciated:</i>				
Buildings	8,732,736	-		8,732,736
Improvements	340,283	41,905		382,188
Equipment	396,527	35,287		431,814
Total capital assets being depreciated	<u>9,469,546</u>	<u>77,192</u>	<u>-</u>	<u>9,546,738</u>
 Less: accumulated depreciation for:				
Buildings	4,558,849	193,688		4,752,537
Improvements	320,983	13,707		334,690
Equipment	348,071	6,557		354,628
Total accumulated depreciation	<u>5,227,903</u>	<u>213,952</u>	<u>-</u>	<u>5,441,855</u>
Total capital assets being depreciated, net	<u>4,241,643</u>	<u>(136,760)</u>	<u>-</u>	<u>4,104,883</u>
Governmental activities capital assets, net	<u>\$ 4,249,897</u>	<u>\$ 316,381</u>	<u>\$ 1,754</u>	<u>\$ 4,564,524</u>

Depreciation was charged to functions as follows:

Instruction	\$ 150,325
Instructional Library, Media and Tech	10,588
School Site Administration	9,227
Home-to-school Transportation	2,113
Food Services	6,246
All Other Pupil Services	1,222
Ancillary Services	21,447
All other General Administration	7,744
Plant Services	5,040
	<u>\$ 213,952</u>

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

6. Joint Ventures

The District participates in two joint ventures under joint powers agreements (JPAs): the North Coast Schools' Insurance Group and the North Coast Schools' Medical Insurance Group.

North Coast Schools' Insurance Group (NCSIG) - The NCSIG arranges for and provides workers compensation and property and liability insurance for its members: all of the Humboldt and Del Norte County School Districts and their County Offices of Education. The NCSIG is governed by a commission composed of one representative from each member agency. A nine member executive committee elected by and from the commission controls the operations of the NCSIG, including selection of management and approval of operating budgets. The NCSIG is independent of any influence by the member districts beyond their representation on the commission. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the NCSIG.

North Coast Schools' Medical Insurance Group (NCSMIG) - The NCSMIG arranges for and provides medical, dental and vision insurance for its members: Humboldt County Office of Education and all Humboldt County School Districts. The NCSMIG is governed by a board of directors composed of representatives from member districts which have one hundred or more insured lives and one representative for those member districts with less than one hundred insured lives. The Board controls the operations of the NCSMIG including selection of management and approval of operating budgets. NCSMIG is independent of influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the NCSMIG.

The following is a summary of financial information for NCSIG and NCSMIG at June 30, 2018 (the most recent information available):

	NCSIG	NCSMIG
Total assets	\$ 5,440,714	\$ 7,365,959
Total liabilities	1,449,967	5,651,980
Total net position	\$ 3,990,747	\$ 1,713,979
Total revenues	\$ 7,073,599	\$ 56,996,770
Total expenses	7,186,353	54,829,893
Change in net position	\$ (112,754)	\$ 2,166,877

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

A copy of the most recent financial statements for NCSIG and NCSMIG can be requested by writing to 901 Myrtle Ave., Eureka, CA 95501.

7. General Obligation Bonds Payable

2012 Refunding Bonds

The District issued general obligation bonds in 1999 in the amount of \$2,500,000 with an average interest rate of 6.7 percent. In February 2012 the District did an advance refunding of these bonds. The District completed the refunding to reduce its total debt service payments over the next 12 years by \$150,226. The outstanding 2012 general obligation refunded bonded debt as of June 30, 2019 is:

Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue	Outstanding June 30, 2018	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2019
2012	3.90%	8/1/2024	\$ 1,724,500	\$ 1,032,000		\$ 133,400	\$ 898,600

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2019, are as follows:

Year Ended June 30	Principal	Interest	Total
2020	\$ 136,700	\$ 32,380	\$ 169,080
2021	139,900	26,986	166,886
2022	147,900	21,374	169,274
2023	150,600	15,553	166,153
2024	158,100	9,534	167,634
2025	165,400	3,225	168,625
Totals	<u>\$ 898,600</u>	<u>\$ 109,052</u>	<u>\$ 1,007,652</u>

2018 Series A General Obligation Bonds

In June 2018 the voters of the District approved a general obligation bond in the amount of \$5,600,000 to modernize and improve the classrooms and school facilities of the District. The District issued the first series, Series A, of these bonds in September 2018 in the amount of \$2,500,000 with interest rates from 3.0 percent to 5.0 percent. The outstanding 2018 Series A general obligation bonded debt as of June 30, 2019 is:

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding June 30, 2018</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2019</u>
9/2018	3.00%-5.00%	8/1/2049	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -	\$ 2,500,000

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2019, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 130,000	\$ 100,319	\$ 230,319
2021	60,000	93,569	153,569
2022		94,619	94,619
2023		94,619	94,619
2024		94,619	94,619
2025-2029		473,095	473,095
2030-2034	215,000	458,885	673,885
2035-2039	405,000	410,039	815,039
2040-2044	660,000	319,276	979,276
2045-2049	1,030,000	138,244	1,168,244
<b>Totals</b>	<b>\$ 2,500,000</b>	<b>\$ 2,277,284</b>	<b>\$ 4,777,284</b>

8. Noncurrent Obligations

Noncurrent obligations include debt and other long-term obligations. Changes in noncurrent obligations for the period ended June 30, 2019 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
General obligation bonds					
2012 Refunding bond	\$ 1,032,000		\$ 133,400	\$ 898,600	\$ 136,700
2018 Series A bond		\$ 2,500,000		2,500,000	130,000
Unamortized premium		109,387	3,646	105,741	
Total General Obligation Bonds	1,032,000	2,609,387	137,046	3,504,341	266,700
Net pension liability	5,310,666	370,815		5,681,481	
Other post-employment benefits	272,124		794	271,330	
Accrued vacation	8,251	667		8,918	8,918
Total Governmental Activities	<u>\$ 6,623,041</u>	<u>\$ 2,980,869</u>	<u>\$ 137,840</u>	<u>\$ 9,466,070</u>	<u>\$ 275,618</u>

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

The funds typically used to liquidate other noncurrent obligations in the past are as follows:

<u>Obligation</u>	<u>Activity Type</u>	<u>Fund</u>
Accrued vacation	Governmental	General
Net pension liability	Governmental	General
General obligation bonds	Governmental	Debt Service
Other post-employment benefits	Governmental	General

9. Leases - Operating Leases

The District has entered into operating leases for facilities and equipment with terms in excess of one year. These agreements do not contain a purchase option. These agreements contain a termination clause providing for cancellation. It is unlikely that the District will cancel the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Total</u>
2020	\$ 8,907
2021	8,907
2022	8,251
Total Lease Payments	<u>\$ 26,065</u>

Total rental expenditures for 2018-2019 were \$24,507. The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

10. Excess of Expenditures Over Appropriations

As of June 30, 2019, the District had the following major fund expenditures that exceeded appropriations:

<u>Appropriations Category</u>	<u>Excess Expenditure</u>
General Fund:	
Employee benefits	\$ 179,087
Other outgo	5,254
Building Fund:	
Classified salaries	945
Employee benefits	30
Services and other operating expenditures	176,298

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

11. Other Postemployment Benefits

Plan Description

The District has established the Pacific Union School District Retiree Healthcare Plan (HC Plan), a single-employer plan. The HC Plan has not established or accumulated any assets in a trust. A separate financial report is not prepared for the HC Plan. The following table summarizes the current HC Plan:

	<b>Certificated</b>
Benefit types provided	Medical, dental and vision
Duration of Benefits	5 years, but not beyond 65
Required Service	12 years
Minimum Age	55
Dependent Coverage	Yes
District Contribution %	100%
District Cap	55 to 60 at retirement: \$6,000 per year Age 61 at retirement: \$7,000 per year Age 62 at retirement: \$8,000 per year Age 63 at retirement: \$9,000 per year Age 64 at retirement: \$10,000 per year

Employees Covered

As of the June 30, 2019 actuarial report, the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	26
Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to, but not yet receiving benefits	0
Total	29

Contributions

The HC Plan and its contribution requirements are established by agreements with the applicable employee bargaining units and may be amended by agreements between the District and the bargaining units. The annual contribution is based on the current insurance premiums due for the participating retirees. For the fiscal year ended June 30, 2019, the District's cash contributions were \$15,809, and there was no estimated implied subsidy, resulting in total payments of \$15,809. No trust has been created for the purpose of prefunding obligations for past services.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

Total OPEB Liability

The District's total OPEB liability was determined by an actuarial report dated August 1, 2019, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Actuarial Cost Method	Entry-age actuarial cost method
Discount Rate	3.50%
Inflation	2.75%
Salary Increases	2.75% per annum, in aggregate
Investment Rate of Return	3.50%
Mortality Rate	Derived using 2009 CalSTRS Mortality study and 2014 CalPERS Active Mortality for Miscellaneous Employees study.
Pre-Retirement Turnover	Derived using 2009 CalSTRS Termination Rates study and 2009 CalPERS Termination Rates for School Employees study.
Healthcare Trend Rate	4.00%

There were no plan assets as of June 30, 2019.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.5 percent, based on an index of 20-year General Obligation municipal bonds. The projection of cash flows used to determine the discount rate assumed that District contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

Changes in the OPEB Liability

The changes in the total OPEB liability for the HC Plan are as follows:

	Increase (Decrease)
	Total OPEB Liability
Balance at June 30, 2018 (Valuation Date June 30, 2018)	\$ 272,124
Changes recognized for the measurement period:	
Service cost	6,786
Interest	9,248
Changes of assumptions	5,743
Benefits payments	(22,571)
Net Changes	(794)
Balance at June 30, 2019 (Measurement Date June 30, 2019)	\$ 271,330

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

The following presents the total OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$ 289,970	\$ 271,330	\$ 254,875

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

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

	1% Decrease (3.0%)	Current Healthcare Cost Trend Rate (4.0%)	1% Increase (5.0%)
Total OPEB Liability	\$ 252,134	\$ 271,330	\$ 290,900

The District's OPEB benefit is a fixed dollar amount, therefore, the health care trend rate does not affect the total OPEB liability.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$16,494. As of fiscal year ended June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 5,283	
Total	\$ 5,283	\$ -

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2020	\$ 460
2021	460
2022	460
2023	460
2024	460
Thereafter	2,983
Total	<u>\$ 5,283</u>

Payable to the HC Plan

At June 30, 2019, the District reported no amount payable for any outstanding amount of contributions to the HC plan required for the year ended June 30, 2019.

12. Pension Plans

A. General Information about the Pension Plans

All qualified employees are covered under cost-sharing multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are eligible to participate in the California State Teachers' Retirement System (CalSTRS), and classified employees are eligible to participate in the California Public Employees' Retirement System (CalPERS).

**Public Employees' Retirement System (PERS)**

Plan Description

All qualified full-time and part-time classified employees of the public school system are eligible to participate in the District's PERS Plan. Benefit provisions under the PERS Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information. These reports can be obtained at CalPERS' website under "Forms and Publications".

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

Benefits Provided

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

The Plan's provisions and benefits in effect at June 30, 2019 are summarized as follows:

	<b>CalPERS</b>	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2% @ 55	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	2.00%	2.00%
Required employee contribution rates	7.0%	6.5%
Required employer contribution rates	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

For the year ended June 30, 2019, the CalPERS contributions recognized as part of pension expense for the Plan were as follows:

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

Contributions - employer	\$	109,664
Contributions - employee (paid by employer)		-
Total	\$	109,664

**State Teachers' Retirement System (STRS)**

Plan Description

All qualified full-time and part-time public school teachers and certain other employees of the public school system are eligible to participate in the District's STRS Plan. Benefit provisions under the STRS Plan are established by State statute and Local Government resolution. CalSTRS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalSTRS website.

Benefits Provided

CalSTRS provides retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members.

The Plan's provisions and benefits in effect at June 30, 2019 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	60	62
Monthly benefits, as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	10.25%	9.205%
Required employer contribution rates	16.28%	16.28%

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

For the year ended June 30, 2019, the CalSTRS contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	\$	355,546
Contributions - employee (paid by employer)		-
Total	\$	355,546

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

PERS Plan	\$	1,427,358
STRS Plan		4,254,123
Total	\$	5,681,481

The District's net pension liability for each Plan is measured as its proportionate share of the net pension liability for the Plan as a whole. The net pension liability of each of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to each pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for each Plan as of June 30, 2018 was as follows:

	CalPERS	CalSTRS
Proportion - June 30, 2017	0.005048%	0.004439%
Proportion - June 30, 2018	0.005350%	0.004630%
Change - Increase (Decrease)	0.000302%	0.000191%

For the year ended June 30, 2019, the District recognized pension expense of \$1,764,692. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date - CalPERS	\$ 145,119	
Pension contributions subsequent to measurement date - CalSTRS	394,868	
Differences between actual and expected experience - CalPERS	93,572	
Differences between actual and expected experience - CalSTRS	13,192	\$ 61,793
Changes in assumptions - CalPERS	142,515	
Changes in assumptions - CalSTRS	660,890	
Change in employer's proportion - CalSTRS	63,445	382,964
Change in employer's proportion - CalPERS	27,472	50,525
Net differences between projected and actual earnings on plan investments - CalPERS	11,708	
Net differences between projected and actual earnings on plan investments - CalSTRS		163,811
	\$ 1,552,781	\$ 659,093

\$539,987 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Increase (Decrease) Pension Expense
2020	\$ 180,332
2021	76,232
2022	(69,081)
2023	74,469
2024	114,687
Thereafter	(22,938)
Total	\$ 353,701

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

Actuarial Assumptions

For the measurement period ended June 30, 2018 (the measurement date), the total pension liability for each Plan was determined by rolling forward the June 30, 2017 total pension liability. The June 30, 2018 total pension liabilities for each plan were based on the following actuarial assumptions:

**Public Employees' Retirement System (PERS)**

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-age normal cost method
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by age and length of service
Investment Rate of Return	7.15% (a)
Asset valuation method	Market value
Mortality Rate Table	Custom (b)
Post Retirement Benefit Increase	2.0% until purchasing power protection allowance floor applies, 2.75% thereafter

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

(b) - The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

**State Teachers' Retirement System (STRS)**

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-age normal cost method
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase	Varies by age and length of service
Investment Rate of Return	7.1% (a)
Asset valuation method	Fair value
Mortality	Custom (b)
Post Retirement Benefit Increase	2.0% simple

(a) - Net of investment expenses but gross of administrative expenses.

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

Discount Rate

**State Teachers' Retirement System (STRS)**

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. The

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, the consulting actuary (Milliman) reviews the return assumptions for reasonableness based on the most current capital market assumptions.

Best estimates of 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term (20-Year) Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	100%	

**Public Employees' Retirement System (PERS)**

The discount rate used to measure the total pension liability for the Plan was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on 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 best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class.

Asset Class	Assumed Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(a) - An expected inflation rate of 2.0% was used for this period.

(b) - An expected inflation rate of 2.92% was used for this period.

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

The following presents the District's proportionate share of the net pension liability for the 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 lower or 1-percentage point higher than the current rate:

**PERS**

	Discount Rate less 1% (6.15%)	Current Discount (7.15%)	Discount Rate plus 1% (8.15%)
Plan's net pension liability	\$ 2,076,884	\$ 1,426,478	\$ 886,874

**STRS**

	Discount Rate less 1% (6.1%)	Current Discount (7.1%)	Discount Rate plus 1% (8.1%)
Plan's net pension liability	\$ 6,233,508	\$ 4,255,294	\$ 2,615,163

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
 For The Year Ended June 30, 2019

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued CalPERS and CalSTRS financial reports available on the CalPERS' and CalSTRS' websites.

C. Payable to the Pension Plan

At June 30, 2019, the District reported no amount payable for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

D. 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 California nonemployer contributing entity's proportionate share of net pension liability associated with the District	\$ 2,436,367
District's proportionate share of net pension liability	<u>4,254,123</u>
Total of State of California and District Share of the Net Pension Liability	<u><u>\$ 6,690,490</u></u>
Revenue recognized in Statement of Activities for support provided by the State of California as a nonemployer contributing entity	<u><u>\$ 441,206</u></u>

13. Risk Management

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 these risks of loss through participation in public entity risk pools, as described in the note regarding "Joint Ventures". 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.

14. Related Party Transactions

For the year ended June 30, 2019, Trillium Charter School paid rent of \$15,600 for facilities to a corporation in which both the Charter School administrator and a Charter School teacher are board members.

PACIFIC UNION SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For The Year Ended June 30, 2019

15. 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. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

**REQUIRED SUPPLEMENTARY INFORMATION**

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL (GAAP)  
GENERAL FUND

For The Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Local control funding formula sources	\$ 4,730,806	\$ 4,772,135	4,774,399	2,264
Federal revenues	193,750	304,722	210,923	(93,799)
Other state revenues	437,995	437,812	690,153	252,341
Other local revenues	416,565	454,723	510,859	56,136
<b>Total revenues</b>	<u>5,779,116</u>	<u>5,969,392</u>	<u>6,186,334</u>	<u>216,942</u>
<b>Expenditures:</b>				
Certificated salaries	2,357,636	2,431,059	2,397,229	33,830
Classified salaries	800,489	853,530	797,336	56,194
Employee benefits	1,452,865	1,726,703	1,905,790	(179,087)
Books and supplies	324,627	261,036	218,531	42,505
Services and other operating expenditures	569,369	764,820	563,528	201,292
Capital outlay	30,000	72,875	72,874	1
Other outgo	194,251	176,369	181,623	(5,254)
Indirect costs (support costs)	(11,400)	(11,400)	(11,400)	
<b>Total expenditures</b>	<u>5,717,837</u>	<u>6,274,992</u>	<u>6,125,511</u>	<u>149,481</u>
Excess (deficiency) of revenues over (under)expenditures	<u>61,279</u>	<u>(305,600)</u>	<u>60,823</u>	<u>366,423</u>
<b>Other financing sources (uses):</b>				
Transfers in	62,256	62,023	63,164	1,141
Transfers out	(15,997)	(15,243)	(17,953)	(2,710)
<b>Total other financing sources</b>	<u>46,259</u>	<u>46,780</u>	<u>45,211</u>	<u>(1,569)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	107,538	(258,820)	106,034	364,854
Fund balances, July 1, 2018	<u>3,033,559</u>	<u>3,033,559</u>	<u>3,033,559</u>	<u>-</u>
Fund balances, June 30, 2019	<u>\$ 3,141,097</u>	<u>\$ 2,774,739</u>	<u>\$ 3,139,593</u>	<u>\$ 364,854</u>

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE - BUDGET AND ACTUAL (GAAP)  
BUILDING FUND

For The Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other local revenues			\$ 30,389	\$ 30,389
Total revenues	-	-	30,389	30,389
Expenditures:				
Classified salaries		\$ 5,000	5,945	(945)
Employee benefits		170	200	(30)
Services and other operating expenditures			176,298	(176,298)
Capital outlay		715,000	445,359	269,641
Total expenditures	-	720,170	627,802	92,368
Excess (deficiency) of revenues over (under)expenditures	-	(720,170)	(597,413)	122,757
Other financing sources (uses):				
Proceeds of debt		2,365,000	2,547,253	182,253
Total other financing sources (uses)	-	2,365,000	2,547,253	182,253
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses		1,644,830	1,949,840	305,010
Fund balances, July 1, 2018				-
Fund balances, June 30, 2019	\$ -	\$ 1,644,830	\$ 1,949,840	\$ 305,010

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS\*

For The Year Ended June 30, 2019

Measurement Period, June 30	<u>2019</u>	<u>2018</u>
Total OPEB Liability:		
Service cost	\$ 6,786	\$ 6,604
Interest on the total OPEB liability	9,248	10,286
Changes in assumptions	5,743	
Benefit payments	<u>(22,571)</u>	<u>(24,485)</u>
Net change in OPEB liability	(794)	(7,595)
Total OPEB liability - beginning	<u>272,124</u>	<u>279,719</u>
Total OPEB liability - ending	<u><u>\$ 271,330</u></u>	<u><u>\$ 272,124</u></u>
Covered-employee payroll	\$ 3,265,273	\$ 3,181,902
Total OPEB liability as a percentage of covered-employee payroll	8.31%	8.55%

**Notes to Schedule**

The District's retiree healthcare plan had no assets accumulated in a trust that meets the criteria in Governmental Accounting Standards Board Statement no. 75, paragraph 4.

Changes in assumptions:	The interest and discount rate assumption changed from 3.8% to 3.5%	None
-------------------------	---	------

\* - Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE LAST TEN YEARS \* - CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

For The Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the net pension liability	0.005350%	0.005050%	0.005280%	0.005422%	0.005338%
Proportionate share of the net pension liability	\$ 1,427,358	\$ 1,205,568	\$ 1,042,900	\$ 799,000	\$ 606,000
Covered-employee payroll	\$ 707,140	\$ 643,440	\$ 632,715	\$ 600,289	\$ 560,538
Proportionate share of the net pension liability as percentage of covered-employee payroll	201.8%	187.4%	164.8%	133.1%	108.1%
CalPERS State-wide fiduciary net position	\$ 64,796,135,561	\$ 60,998,386,333	\$ 55,912,964,558	\$ 56,911,065,643	\$ 56,940,364,500
CalPERS State-wide total pension liability	\$ 91,459,283,785	\$ 84,871,025,628	\$ 75,663,026,434	\$ 71,651,164,353	\$ 68,292,799,349
Plan fiduciary net position as a percentage of the total pension liability	70.85%	71.87%	73.90%	79.43%	83.38%

**NOTES TO SCHEDULE:**

Benefit changes	None	None	None	None	None
Changes in assumptions	The inflation rate was changed from 2.75% to 2.5% and the payroll growth rate was changed from 3.0% to 2.75%.	The discount rate was lowered from 7.65% to 7.15%.	None	The discount rate was changed from 7.50% to 7.65%.	None

\* - Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in the year ended June 30, 2015. Future years' information will be displayed up to 10 years as information becomes available.

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE LAST TEN YEARS \* -  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (STRS)  
 For The Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.00463%	0.00444%	0.00446%	0.00455%	0.00441%
District's proportionate share of the net pension liability	\$ 4,254,123	\$ 4,105,098	\$ 3,610,600	\$ 3,064,000	\$ 2,576,000
State of California's nonemployer contributing entity's proportionate share of the net pension liability associated with the District	2,436,367	2,428,541	2,056,000	1,621,000	1,556,000
Total District and State of California share of net pension liability	\$ 6,690,490	\$ 6,533,639	\$ 5,666,600	\$ 4,685,000	\$ 4,132,000
Covered-employee payroll	\$ 2,473,577	\$ 2,359,048	\$ 2,229,628	\$ 2,112,640	\$ 1,963,491
Proportionate share of the net pension liability as percentage of covered-employee payroll	172.0%	174.0%	161.9%	145.0%	131.2%
CalSTRS State-wide fiduciary net position	\$ 224,869,000,000	\$ 210,290,000,000	\$ 189,113,000,000	\$ 191,882,000,000	\$ 190,474,016,000
CalSTRS State-wide total pension liability	\$ 316,776,000,000	\$ 302,769,000,000	\$ 269,994,000,000	\$ 259,146,000,000	\$ 248,911,000,000
Plan fiduciary net position as a percentage of the total pension liability	70.99%	69.46%	70.04%	74.04%	76.52%

**NOTES TO SCHEDULE:**

Benefit changes	None	None	None	None	None
Changes in assumptions	None	The inflation rate was lowered from 3.0% to 2.75%, the investment rate was lowered from 7.6% to 7.1%, and the payroll growth was lowered from 3.75% to 3.5%.	None	None	None

\* - Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in the year ended June 30, 2015. Future years' information will be displayed up to 10 years as information becomes available.

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF CONTRIBUTIONS FOR THE LAST TEN YEARS \*  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)  
For The Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 109,664	\$ 89,392	\$ 75,048	\$ 70,660	\$ 64,117
Contribution in relation to the actuarially determined contribution	<u>109,664</u>	<u>89,392</u>	<u>75,048</u>	<u>70,660</u>	<u>64,117</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 707,140	\$ 643,440	\$ 632,715	\$ 600,289	\$ 560,538
Contributions as a percentage of covered-employee payroll	15.51%	13.89%	11.86%	11.77%	11.44%

**NOTES TO SCHEDULE:**

Actuarial valuation date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
--------------------------	-----------	-----------	-----------	-----------	-----------

Methods and assumptions used to determine contribution rates:

Actuarial funding method	Entry age normal cost
Amortization method	Level percentage of payroll, closed
Discount Rate	7.15%
Inflation	2.50%
Payroll growth	2.75%
Projected Salary Increase	Varies by age and length of service
Investment rate of return	7.15%, net of pension plan investment expense
Asset valuation method	Market value
Mortality	Custom (a)
Post Retirement Benefit Increase	2.0% until purchasing power protection allowance floor applies, 2.75% thereafter

(a) - The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

\* - Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in the year ended June 30, 2015. Future years' information will be displayed up to 10 years as information becomes available.

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF CONTRIBUTIONS FOR THE LAST TEN YEARS \*  
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (STRS)

For The Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 355,546	\$ 295,959	\$ 238,717	\$ 188,641	\$ 161,988
Contribution in relation to the actuarially determined contribution	355,546	295,959	238,717	188,641	161,988
Contribution deficiency (excess)	<u>\$ -</u>				
Covered-employee payroll	\$ 2,473,577	\$ 2,359,048	\$ 2,229,628	\$ 2,112,640	\$ 1,963,491
Contributions as a percentage of covered-employee payroll	14.37%	12.55%	10.71%	8.93%	8.25%

**NOTES TO SCHEDULE:**

Actuarial valuation date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
--------------------------	-----------	-----------	-----------	-----------	-----------

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll, closed
Discount Rate	7.1%
Inflation	2.75%
Payroll Growth	3.5%
Projected Salary Increase	Varies by age and length of service
Investment Rate of Return	7.1%, net of investment expenses but gross of administrative expenses.
Asset valuation method	Fair value
Mortality	Custom (a)
Post Retirement Benefit Increase	2.0% simple

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

\* - Historical information is required only for measurement periods for which GASB 68 is applicable. GASB 68 was implemented in the year ended June 30, 2015. Future years' information will be displayed up to 10 years as information becomes available.

**SUPPLEMENTARY INFORMATION**

PACIFIC UNION SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR FUNDS  
June 30, 2019

	Cafeteria Fund	Charter School Fund	Capital Outlay Fund	Bond Interest & Redemption Fund	Total Other Governmental Funds
<b>ASSETS</b>					
Cash in County Treasury		\$ 207,577		\$ 226,869	\$ 434,446
Accounts receivable	\$ 27,711	21,110			48,821
Stores inventory	1,812				1,812
Total assets	<u>29,523</u>	<u>228,687</u>	-	<u>226,869</u>	<u>485,079</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Total deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 29,523</u>	<u>\$ 228,687</u>	<u>\$ -</u>	<u>\$ 226,869</u>	<u>\$ 485,079</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 45	\$ 3,015			\$ 3,060
Total liabilities	<u>45</u>	<u>3,015</u>	-	-	<u>3,060</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Total deferred inflows of resources	-	-	-	-	-
<b>FUND BALANCES</b>					
Nonspendable	1,812				1,812
Restricted	27,666	46,680		\$ 226,869	301,215
Assigned		178,992			178,992
Total fund balances	<u>29,478</u>	<u>225,672</u>	-	<u>226,869</u>	<u>482,019</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 29,523</u>	<u>\$ 228,687</u>	<u>\$ -</u>	<u>\$ 226,869</u>	<u>\$ 485,079</u>

PACIFIC UNION SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
NONMAJOR FUNDS  
For The Year Ended June 30, 2019

	<u>Cafeteria Fund</u>	<u>Charter School Fund</u>	<u>Capital Outlay Fund</u>	<u>Bond Interest &amp; Redemption Fund</u>	<u>Total Other Governmental Funds</u>
Revenues:					
Local control funding formula		\$ 378,420			\$ 378,420
Federal revenue	\$ 157,305	8,420			165,725
Other state revenue	15,884	64,368			80,252
Other local revenue	<u>44,277</u>	<u>20,719</u>	<u>\$ 2,537</u>	<u>\$ 176,904</u>	<u>244,437</u>
Total revenues	<u>217,466</u>	<u>471,927</u>	<u>2,537</u>	<u>176,904</u>	<u>868,834</u>
Expenditures:					
Certificated salaries		107,350			107,350
Classified salaries	70,708	77,937			148,645
Employee benefits	43,346	139,499			182,845
Books and supplies	114,901	16,210			131,111
Services and other operating expenses	19,064	67,508			86,572
Other outgo		491			491
Indirect costs/support costs	11,400				11,400
Capital outlay			2,537		2,537
Debt service - principal				133,400	133,400
Debt service - interest				74,152	74,152
Total expenditures	<u>259,419</u>	<u>408,995</u>	<u>2,537</u>	<u>207,552</u>	<u>878,503</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,953)</u>	<u>62,932</u>	<u>-</u>	<u>(30,648)</u>	<u>(9,669)</u>
Other financing sources (uses):					
Proceeds from debt				62,134	62,134
Operating transfers in	2,810	15,143			17,953
Operating transfers out		(63,164)			(63,164)
Total Other financing sources (uses):	<u>2,810</u>	<u>(48,021)</u>	<u>-</u>	<u>62,134</u>	<u>16,923</u>
Net change in fund balance	(39,143)	14,911		31,486	7,254
Fund balances, July 1, 2018	<u>68,621</u>	<u>210,761</u>		<u>195,383</u>	<u>474,765</u>
Fund balances, June 30, 2019	<u>\$ 29,478</u>	<u>\$ 225,672</u>	<u>\$ -</u>	<u>\$ 226,869</u>	<u>\$ 482,019</u>

PACIFIC UNION SCHOOL DISTRICT

ORGANIZATION

For The Year Ended June 30, 2019

The Pacific Union School District was established in 1959, and is comprised of an area of approximately 14 square miles located in Humboldt County. There were no changes in boundaries of the District during the current year. The District currently operates one elementary school, grades kindergarten through eighth, and one charter school, grades kindergarten through fifth.

The Board of Trustees for the fiscal year ended June 30, 2019 was composed of the following members, each with a four year term:

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jason Barr	President	2022
Theodore Weller	Clerk	2020
Christopher Emmons	Member	2020
Karan Collenberg	Member	2022
Fred Hanks, Jr.	Member (Appointed 12/13/18)	2022
Dirk Luoma	Member (Term expired 11/18)	2018

ADMINISTRATION

Karla Darnall  
District Superintendent/Principal

Alyse Nichols  
Associate Principal

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE

For The Year Ended June 30, 2019

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Audited</u>	<u>Reported</u>	<u>Audited</u>	<u>Reported</u>
<b>Pacific Union Elementary:</b>				
Kindergarten through third	259.58	258.90	259.11	259.11
Fourth through sixth	175.57	175.57	175.36	175.36
Seventh and eighth	<u>99.86</u>	<u>99.86</u>	<u>98.55</u>	<u>98.55</u>
Total Elementary School	<u><u>535.01</u></u>	<u><u>534.33</u></u>	<u><u>533.02</u></u>	<u><u>533.02</u></u>
<b>Trillium Charter School:</b>				
Classroom Based Instruction:				
Kindergarten through third	27.12	27.44	27.47	27.77
Fourth through sixth	<u>13.60</u>	<u>13.84</u>	<u>13.44</u>	<u>13.62</u>
Total Classroom Based Instruction	40.72	41.28	40.91	41.39
Non-Classroom Based Instruction:				
None	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charter School	<u><u>40.72</u></u>	<u><u>41.28</u></u>	<u><u>40.91</u></u>	<u><u>41.39</u></u>

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME

For The Year Ended June 30, 2019

<u>Grade Level</u>	<u>Minutes Requirement</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar *</u>	<u>Status</u>
<b>Pacific Union Elementary School</b>				
Kindergarten	36,000	53,250	180	Complied
Grade 1	50,400	50,825	180	Complied
Grade 2	50,400	50,825	180	Complied
Grade 3	50,400	50,825	180	Complied
Grade 4	54,000	55,200	180	Complied
Grade 5	54,000	55,200	180	Complied
Grade 6	54,000	55,200	180	Complied
Grade 7	54,000	57,200	180	Complied
Grade 8	54,000	57,200	180	Complied
<b>Trillium Charter School</b>				
Kindergarten	36,000	38,505	180	Complied
Grade 1	50,400	50,940	180	Complied
Grade 2	50,400	50,940	180	Complied
Grade 3	50,400	50,940	180	Complied
Grade 4	54,000	54,540	180	Complied
Grade 5	54,000	54,540	180	Complied

Districts, including basic aid districts, must maintain their instructional minutes at or above the requirements as reduced pursuant to Education Code Section 46201. This schedule is required for all districts, including basic aid districts.

The District has participated in Longer Day incentive funding. The District did meet or exceed its local control funding formula target. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Section 46200 through 46206.

\* The District did not use a multitrack calendar.

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For The Year Ended June 30, 2019

General Fund	For The Year Ended			
	Budget 6/30/20	6/30/19	6/30/18	6/30/17
Revenues and other financial sources	\$ 6,013,493	\$ 6,249,498	\$ 5,567,631	\$ 5,444,088
Expenditures	6,092,524	6,125,511	5,558,497	5,101,947
Other uses and transfers out	32,331	17,953	18,436	18,998
Total Outgo	6,124,855	6,143,464	5,576,933	5,120,945
Change in Fund Balance	\$ (111,362)	\$ 106,034	\$ (9,302)	\$ 323,143
Ending Fund Balance	\$ 3,028,231	\$ 3,139,593	\$ 3,033,559	\$ 3,042,861
Available Reserves	\$ 1,911,407	\$ 1,890,374	\$ 1,852,468	\$ 2,029,190
Designated for Economic Uncertainties	\$ 1,911,407	\$ 1,890,374	\$ 1,852,468	\$ 2,029,190
Undesignated, Unassigned Fund Balance	\$ -	\$ -	\$ -	\$ -
Available Reserves as a Percentage of Total Outgo	31.21%	30.77%	33.22%	39.63%
Total Long-Term Debt	\$ 9,199,370	\$ 9,466,070	\$ 6,623,041	\$ 5,949,087
Average Daily Attendance at P-2	532	535	520	503

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

The General Fund balance has increased \$96,732 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$111,362 (3.55%). For a district this size, the State recommends available reserves of at least four percent of total expenditures, transfers out, and other uses (total outgo), or \$67,000, whichever is greater.

The District incurred an operating deficit in one of the last three years, and anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term debt has increased by \$3,516,983 over the past two years, due to the implementation in 2014/15 of GASB 68 and the resulting requirement to recognize the District's proportionate share of the State-wide STRS and PERS net pension liability, the implementation of GASB 75 and the resulting increase in the required amount of post-employment benefits liability to be recognized in the Statement of Net Position, and the issuance of a \$2,500,000 general obligation bond in 2018-2019.

Regular average daily attendance has increased by 32 ADA over the past two years. The District anticipates a decrease of 3 ADA during the fiscal year 2019-2020.

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For The Year Ended June 30, 2019

<u>Charter Schools Chartered by District</u>	<u>Charter School Number</u>	<u>Included in District Financial Statements, or Separate Report</u>
Trillium Charter School	0891	Included in Financial Statements

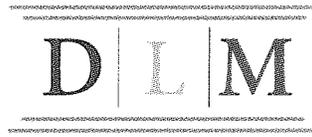
PACIFIC UNION SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET  
REPORT WITH AUDITED FINANCIAL STATEMENTS

For The Year Ended June 30, 2019

	General Fund	Special Reserve Fund	Retiree Benefits Fund
June 30, 2019 Annual Financial and Budget Report Fund Balance	\$ 1,242,014	\$ 1,890,374	\$ 7,206
Adjustments and Reclassifications Increasing and (Decreasing) the Fund Balance -			
Reclassify Special Reserve and Retiree Benefits Fund	1,897,580	(1,890,374)	(7,206)
Rounding	(1)		
June 30, 2019 Audited Financial Statements Fund Balance	\$ 3,139,593	\$ -	\$ -

**OTHER INDEPENDENT AUDITOR'S REPORTS**

John R. Goff, CPA  
Mark G. Wetzel, CPA  
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP  
*Certified Public Accountants*

Kenneth X. Stringer, CPA  
Aaron S. Weiss, CPA  
Matthew J. Hague, CPA

## PACIFIC UNION SCHOOL DISTRICT

### 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  
Pacific Union School District  
3001 Janes Road  
Arcata, California 95521

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pacific Union School District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2019.

#### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

PACIFIC UNION SCHOOL DISTRICT

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 - CONTINUED

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-001 through 2019-003.

**District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**Purpose of This Report**

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

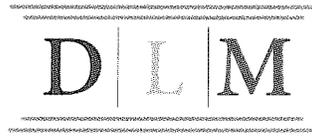


CERTIFIED PUBLIC ACCOUNTANTS

Eureka, California

December 5, 2019

John R. Goff, CPA  
Mark G. Wetzel, CPA  
Michael R. Cline, CPA



DAVID L. MOONIE & CO., LLP  
Certified Public Accountants

Kenneth X. Stringer, CPA  
Aaron S. Weiss, CPA  
Matthew J. Hague, CPA

## PACIFIC UNION SCHOOL DISTRICT

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Pacific Union School District  
3001 Janes Road  
Arcata, California 95521

#### **Compliance**

We have audited the Pacific Union School District's (the District) compliance with the requirements specified in the *2018-19 Guide For Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel, that are applicable to the District's educational programs for the year ended June 30, 2019.

#### **Management's Responsibility**

Compliance with the applicable compliance requirements referred to above is the responsibility of the District's management.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the District's compliance with the applicable compliance requirements referred to above based on our compliance audit.

Our compliance audit was conducted 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 *2018-19 Guide For Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations*, Title 5, Section 19810 and following. The compliance audit included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination of the District's compliance.

PACIFIC UNION SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE – CONTINUED

In connection with our compliance audit referred to above, we tested the following compliance requirements:

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher certification and misassignments	Yes
Kindergarten Continuance	Yes
Independent study	No (See below)
Continuation education	Not applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive Program	Not applicable
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not applicable
Middle or Early College High School	Not applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not applicable
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
After school	Not applicable
Before school	Not applicable
General	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

PACIFIC UNION SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE – CONTINUED

Independent Study ADA was below the level that requires testing, therefore we did not perform all of the procedures in the audit guide related to independent study. However, during attendance testing we noted errors in the Charter School's independent study contracts, so the procedures related to independent study contracts were performed for Charter School independent study.

**Opinion**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the District's educational programs for the year ended June 30, 2019.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the California Education Audit Appeals Panel's *2018-19 Guide For Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-001 through 2019-003. Our opinion on the District's compliance with the requirements specified in the *2018-19 Guide For Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* is not modified with respect to these matters.

**District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Purpose of this Report**

The purpose of this report on state compliance is solely to describe the scope of our testing of the District's state compliance and the results of that testing based on the requirements specified in the *2018-19 Guide For Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

  
CERTIFIED PUBLIC ACCOUNTANTS  
Eureka, California  
December 5, 2019

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2019

Section I – Financial Statement Findings

None reported.

Section II – Federal Award Findings and Questioned Costs

None reported.

Section III – State Award Findings and Questioned Costs

2019-001: ATTENDANCE REPORTING (CODE 10000)

Criteria

Education Code Section 41601 requires that the governing board of each school district shall report to the Superintendent of Public Instruction during each fiscal year the average daily attendance (ADA) of the district for all full school months during (1) the period between July 1 and December 31, inclusive, to be known as the "first period" report for the first principal apportionment, and (2) the period between July 1 and April 15, inclusive, to be known as the "second period" report. Each report shall be prepared in accordance with instructions on forms prescribed and furnished by the Superintendent of Public Instruction.

Condition

During our testing of Pacific Union Elementary School's attendance, we noted that Home and Hospital ADA of 0.68 was not included in the P-2 Attendance Report. The Annual Attendance Report correctly included Home and Hospital ADA.

The total change and amended total of regular ADA is as follows:

	<u>As Originally Filed</u>	<u>Audit Increase</u>	<u>Amended Total</u>
<u>P-2 Report</u>			
Grades K-3	258.90	0.68	259.58
Grades 4-6	175.57		175.57
Grades 7-8	99.86		99.86
Total	<u>534.33</u>	<u>0.68</u>	<u>535.01</u>

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2019

Effect

The District's Second Period attendance report for Pacific Union Elementary School understated regular ADA by 0.68. This understatement of ADA translates to an increase in local control funding formula of approximately \$6,200.

Cause

Clerical errors in preparing the second period report.

Recommendation

We recommend that the District amend its Second Period (P-2) report to reflect the changes noted above, and ensure that in the future any Home and Hospital ADA is included in the reported ADA totals.

Views of Responsible Officials and Planned Corrective Actions

The District agrees to the recommendation and will adhere to the corrective action plan described in the "District's Corrective Action Plan" section immediately following this section of the audit report.

2019-002: INDEPENDENT STUDY CONTRACTS - TRILLIUM CHARTER SCHOOL  
(CODE 10000)

Criteria

California Education Code Section 51747 states that each charter school independent study contract should be signed, prior to the commencement of the independent study, by the parent/guardian, student, and the certificated employee responsible for supervision of the independent study. Independent study is not allowable for apportionment attendance if the required signatures are not present.

Condition

Trillium Charter School utilizes independent study for some short-term absences. During our testing of charter school average daily attendance (ADA), in the course of testing absences we noted an independent study contract that did not have the student's signature. We expanded our procedures to review all independent study contracts for the year, and found that none of them had a student's signature. Total ADA claimed for independent study was 0.56 on the P-2 Attendance Report and 0.48 on the Annual

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2019

Attendance Report. Since there was no student signature on the contracts, this ADA is not allowable for apportionment attendance.

The total change and amended total of Charter School ADA is as follows:

	As Originally Filed	Audit Decrease	Amended Total
<u>P-2 Report</u>			
Grades K-3	27.44	(0.32)	27.12
Grades 4-6	13.84	(0.24)	13.60
Total	<u>41.28</u>	<u>(0.56)</u>	<u>40.72</u>
 <u>Annual Report</u>			
Grades K-3	27.77	(0.30)	27.47
Grades 4-6	13.62	(0.18)	13.44
Total	<u>41.39</u>	<u>(0.48)</u>	<u>40.91</u>

Effect

The District's charter school attendance reports overstated P-2 and Annual ADA by 0.56 and 0.48, respectively. The overstatement of ADA translates to a reduction in local control funding formula of approximately \$5,100.

Cause

The Charter School's contract was copied from prior years, and the page that included the student signature was not copied with the rest of the form.

Recommendation

We recommend that the District amend its Second Period (P-2) and Annual attendance reports to reflect the changes noted above, and revise the form used for independent study contracts to include all required signatures and provisions in accordance with Education Code Section 51747.

PACIFIC UNION SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2019

Views of Responsible Officials and Planned Corrective Actions

The District agrees to the recommendation and will adhere to the corrective action plan described in the "District's Corrective Action Plan" section immediately following this section of the audit report.

2019-003: COMPREHENSIVE SCHOOL SAFETY PLAN (CODE 40000)

Criteria

Education Code Sections 32280 through 32289 require that all California public schools develop a comprehensive school safety plan that addresses the safety concerns identified through a systematic planning process. Education Code Section 32286 requires that this plan be reviewed and updated by March 1 every year.

Condition

The District has a comprehensive school safety plan, but for the year ended June 30, 2019 the District did not review and update the plan prior to March 1. The plan was reviewed and updated and approved by the Board on June 6, 2019.

Effect

The District was not in compliance with the requirements to annually review and update the comprehensive school safety plan prior to March 1.

Cause

The District was not aware of the requirement to update the plan by March 1.

Recommendation

We recommend that the District implement a process to ensure that the school safety plan is reviewed for completeness and accuracy and updated annually prior to March 1 each year.

Views of Responsible Officials and Planned Corrective Actions.

The District agrees to the recommendation and will adhere to the corrective action plan described in the "District's Corrective Action Plan" section immediately following this section of the audit report.



# Pacific Union School District

Rene L. McBride  
Superintendent/Principal  
Alyse E. Nichols  
Associate Principal  
Board Of Trustees  
Jason Barr  
Karan Collenberg  
Chris Emmons  
Fred Hanks  
Ted Weller

3001 Janes Road • Arcata, California 95521 • 707/822-4619 FAX 707/822-0129

## CORRECTIVE ACTION PLAN

For The Year Ended June 30, 2019

### FINDING 2019-001: ATTENDANCE REPORTING (CODE 10000)

Name of contact person: Rene McBride, Superintendent

Corrective Action: The District will amend its Second Period (P-2) report. The amended report will reflect the understatement of regular ADA of .68 for Pacific Union School. The District will ensure that Home and Hospital ADA is included in the reported ADA totals.

Proposed Completion Date: February 2020

### FINDING 2019-002: INDEPENDENT STUDY CONTRACTS - TRILLIUM CHARTER SCHOOL (CODE 10000)

Name of contact person: Rene McBride, Superintendent

Corrective Action: The District will amend the Second Period (P-2) and Annual attendance reports for Trillium Charter School. The amended reports will reflect the overstatement of ADA of .56 and .48 respectively. The District will ensure that future charter school independent study contracts include all signatures.

Proposed Completion Date: February 2020

### FINDING 2019-003: COMPREHENSIVE SCHOOL SAFETY PLAN (CODE 40000)

Name of contact person: Rene McBride, Superintendent

Corrective Action: The District will annually review and update the School Safety Plan before the March 1 deadline.

Proposed Completion Date: March 2020

PACIFIC UNION SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS

For The Year Ended June 30, 2019

2018-001: ATTENDANCE REPORTING (CODE 10000)

Condition

During our testing of regular school attendance, we noted that the District inadvertently used the incorrect cutoff period when preparing the P-2 attendance report. In addition, the District incorrectly reported attendance due to clerical errors, resulting in a total understatement of P-2 and Annual ADA by 0.27 and 1.22, respectively.

During our testing of charter school attendance, we noted that one student was reported in grades K-3 rather than grades 4-6. There was also a difference in P-2 ADA due to clerical errors. The total overstatement of P-2 ADA was 0.09.

The total over (under) statement of ADA is as follows:

<u>Regular School</u>	<u>ADA Over (Under) Statement</u>	
	<u>Second</u>	
	<u>Period</u>	<u>Annual</u>
Grades K through three	(1.02)	(0.81)
Grades four through six	(0.05)	0.00
Grades seven and eight	<u>0.80</u>	<u>(0.41)</u>
Total Over (Under) Statement	<u>(0.27)</u>	<u>(1.22)</u>
<u>Charter School</u>	<u>Second</u>	
	<u>Period</u>	<u>Annual</u>
Grades K through three	0.26	0.14
Grades four through six	<u>(0.17)</u>	<u>(0.14)</u>
Total Over (Under) Statement	<u>0.09</u>	<u>(0.00)</u>

Recommendation

We recommend that the District amend its Second Period (P-2) and Annual attendance reports to reflect the changes noted above.

Current Status

Implemented.

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by Pacific Union School District (the “District”) in connection with the execution and delivery of \$3,096,436.00 aggregate principal amount of the District’s General Obligation Bonds, 2018 Election, 2020 Series B (the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the District on March 10, 2020 (the “Resolution”). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist D.A. Davidson & Co. (the “Underwriter”) in complying with Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

“Bondholder” or “Holder” means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

“Dissemination Agent” shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent/Principal (or otherwise by the District), which Agent has evidenced its acceptance in writing. Initially, and in the absence of the specific designation of a successor or alternate Dissemination Agent, the Dissemination Agent shall be Isom Advisors, a division of Urban Futures, Inc.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Event” means any of the events listed in Section 6 of this Disclosure Agreement.

“Material Events Disclosure” means dissemination of a notice of a Listed Event as set forth in Section 6.

“MSRB” shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at <http://emma.msrb.org/>, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated March 26, 2020 (“Final Official Statement”).

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 8 months after the end of the District’s fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2020, which would be due on March 1, 2021, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District shall send a notice in a timely manner to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District’s Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District’s most recently available fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Adopted general fund budget for the current fiscal year;

(ii) Assessed valuations, as shown on the most recent equalized assessment roll;

(iii) 20 largest local secured taxpayers as shown on the most recent equalized assessment roll; and

(iv) Secured tax charges and delinquencies, unless the County includes the District and its general obligation bonds in its Teeter Plan.

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

**SECTION 6. Reporting of Significant Events.**

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.
- (iv) Substitution of or failure to perform by any credit provider.
- (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender Offers;
- (vii) Defeasances;
- (viii) Rating changes;
- (ix) Bankruptcy, insolvency, receivership or similar event of the obligated person; or
- (x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person which reflect financial difficulties.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

- (i) Unless described in paragraph 6(a)(v) hereof, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (ii) Modifications of rights to Bondholders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional Paying Agent or the change of name of a Paying Agent; or

(viii) Incurrence of a Financial Obligation of the obligated person or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the District shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the

Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: April 9, 2020

PACIFIC UNION SCHOOL DISTRICT

By: \_\_\_\_\_  
Superintendent/Principal

ACCEPTED:

ISOM ADVISORS, a division of Urban Futures, Inc.,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Representative

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Pacific Union School District

Name of Issue: \$3,096,436.00 General Obligation Bonds, 2018 Election, 2020 Series B

Date of Issuance: April 9, 2020

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated April 9, 2020. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

[ISSUER/DISSEMINATION AGENT]

By: \_\_\_\_\_

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

#### **General**

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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

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

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in San Francisco, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least \$1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in San Francisco, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX F

### ACCRETED VALUES TABLE

Date	Capital Appreciation Bond maturing 08/01/2032 @ 3.000%	Capital Appreciation Bond maturing 08/01/2044 @ 3.450%
04/09/2020	\$3,465.45	\$2,176.80
08/01/2020	3,497.70	2,200.05
02/01/2021	3,550.15	2,238.00
08/01/2021	3,603.40	2,276.60
02/01/2022	3,657.45	2,315.90
08/01/2022	3,712.35	2,355.85
02/01/2023	3,768.00	2,396.50
08/01/2023	3,824.55	2,437.80
02/01/2024	3,881.90	2,479.90
08/01/2024	3,940.15	2,522.65
02/01/2025	3,999.25	2,566.15
08/01/2025	4,059.20	2,610.45
02/01/2026	4,120.10	2,655.45
08/01/2026	4,181.90	2,701.30
02/01/2027	4,244.65	2,747.85
08/01/2027	4,308.30	2,795.25
02/01/2028	4,372.95	2,843.50
08/01/2028	4,438.55	2,892.55
02/01/2029	4,505.10	2,942.45
08/01/2029	4,572.70	2,993.20
02/01/2030	4,641.30	3,044.85
08/01/2030	4,710.90	3,097.35
02/01/2031	4,781.55	3,150.80
08/01/2031	4,853.30	3,205.15
02/01/2032	4,926.10	3,260.40
08/01/2032	5,000.00	3,316.65
02/01/2033	--	3,373.90
08/01/2033	--	3,432.10
02/01/2034	--	3,491.30
08/01/2034	--	3,551.50
02/01/2035	--	3,612.75
08/01/2035	--	3,675.10
02/01/2036	--	3,738.50
08/01/2036	--	3,803.00
02/01/2037	--	3,868.60
08/01/2037	--	3,935.30
02/01/2038	--	4,003.20
08/01/2038	--	4,072.25
02/01/2039	--	4,142.50
08/01/2039	--	4,213.95
02/01/2040	--	4,286.65
08/01/2040	--	4,360.60
02/01/2041	--	4,435.80
08/01/2041	--	4,512.35
02/01/2042	--	4,590.15
08/01/2042	--	4,669.35
02/01/2043	--	4,749.90
08/01/2043	--	4,831.85
02/01/2044	--	4,915.20
08/01/2044	--	5,000.00

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX G**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN