

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 3, 2020

NEW ISSUES —BOOK-ENTRY ONLY

Ratings: S&P (Insured): “AA”

S&P (Underlying): “A+”

(See “MISCELLANEOUS — Ratings” herein.)

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

\$48,000,000\*

VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)

General Obligation Bonds, 2020 Election, Series 2020A

\$14,000,000\*

VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)

General Obligation Bonds, 2012 Election, Series 2020E

\$30,140,000\*

VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)

2020 General Obligation Refunding Bonds (Federally Taxable)

Dated: Date of Delivery

Due: August 1, as shown herein

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

The Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2020 Election, Series 2020A (the “Series 2020A Bonds”) and the Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2012 Election, Series 2020E (the “Series 2020E Bonds”) and together with the Series 2020A Bonds, the “New Money Bonds”), are issued by the Val Verde Unified School District (the “District”) to finance specific construction and improvement projects approved by the voters of the District and to pay costs of issuance of the New Money Bonds. The New Money Bonds are being issued under the laws of the State of California (the “State”) and pursuant to resolutions of the Board of Education of the District. The Val Verde Unified School District (Riverside County, California) 2020 General Obligation Refunding Bonds (Federally Taxable) (the “Refunding Bonds”) are being issued to refund a portion of the outstanding Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2012 Election, 2013 Series A, and to pay costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued under the laws of the State and a resolution of the Board of Education of the District. The New Money Bonds and the Refunding Bonds are referred to collectively herein as the “Bonds.”

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

The Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Refunding Bonds is payable on each February 1 and August 1 to maturity, commencing August 1, 2020. Interest on the New Money Bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2021. Principal of the Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The scheduled payment of principal of and interest on the New Money Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the New Money Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”). The schedule payment of principal of and interest on the Refunding Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Refunding Bonds by BAM.



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

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

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

Each series of the Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District. It is anticipated that each series of the Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about June 19, 2020.

PIPER | SANDLER

Dated: \_\_\_\_\_, 2020

\* Preliminary; subject to change.

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

**MATURITY SCHEDULE\***  
**BASE CUSIP<sup>†</sup>: 918820**

**\$48,000,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Obligation Bonds, 2020 Election, Series 2020A**

\$ \_\_\_\_\_ **Serial Series 2020A Bonds**

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number <sup>†</sup>
2021	\$	%	%	
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				
2047				
2048				
2049				

\$ \_\_\_\_\_ % **Term Series 2020A Bonds due August 1, 20\_\_** – Yield \_\_\_\_\_% - **CUSIP Number<sup>†</sup>** \_\_\_\_\_

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\* Preliminary; subject to change.

**MATURITY SCHEDULE\***  
**BASE CUSIP<sup>†</sup>: 918820**

**\$14,000,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Obligation Bonds, 2012 Election, Series 2020E**

\$ \_\_\_\_\_ **Serial Series 2020E Bonds**

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number <sup>†</sup>
2021	\$	%	%	
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				
2045				
2046				

\$ \_\_\_\_\_ % **Term Series 2020E Bonds due August 1, 20\_\_** – Yield \_\_\_\_\_% - CUSIP Number<sup>†</sup> \_\_\_\_\_

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\* Preliminary; subject to change.

**MATURITY SCHEDULE\***  
**BASE CUSIP<sup>†</sup>: 918820**

**\$30,140,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**2020 General Obligation Refunding Bonds (Federally Taxable)**

\$ \_\_\_\_\_ **Serial Refunding Bonds**

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number <sup>†</sup>
2020	\$	%	%	
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				

\$ \_\_\_\_\_ % **Term Refunding Bonds due August 1, 20\_\_** – Yield \_\_\_\_\_ % - CUSIP Number<sup>†</sup> \_\_\_\_\_

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\* Preliminary; subject to change.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)**

**BOARD OF EDUCATION**

Matthew Serafin (Area 2), *President*  
Marla Kirkland (Area 1), *Vice President*  
Marisol Roque (Area 4), *Clerk*  
Ty Liddell (Area 3), *Member*  
Julio Gonzalez (Area 5), *Member*

**DISTRICT ADMINISTRATORS**

Michael R. McCormick, *Superintendent*  
Stacy Coleman, *Deputy Superintendent, Business Services*  
Kristin Merritt, *Director of Fiscal Services*

**PROFESSIONAL SERVICES**

**Municipal Advisor**

Fieldman, Rolapp & Associates, Inc.  
*Irvine, California*

**Bond Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
*Irvine, California*

**Paying Agent, Registrar and Transfer Agent**

Zions Bancorporation, National Association  
*Los Angeles, California*

**Escrow Bank for the Refunding Bonds**

U.S. Bank National Association  
*Los Angeles, California*

**Verification Agent**

Causey Demgen & Moore P.C.  
*Denver, Colorado*

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

The Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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

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 a 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.

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,” “intend” 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.

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 H – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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.

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

## TABLE OF CONTENTS

	<b>Page</b>
INTRODUCTION .....	1
General .....	1
The District .....	2
THE BONDS .....	2
Authority for Issuance; Purpose.....	2
Bond Insurance Policies.....	3
Form and Registration.....	3
Payment of Principal and Interest .....	4
Redemption.....	4
Defeasance of Bonds.....	7
Unclaimed Moneys .....	8
Plan of Finance .....	8
Plan of Refunding .....	9
Estimated Sources and Uses of Funds .....	10
Debt Service.....	11
Outstanding Bonds.....	12
Aggregate Debt Service .....	13
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS .....	14
General .....	14
Statutory Lien on Taxes (Senate Bill 222).....	14
Pledge of Tax Revenues.....	14
Property Taxation System.....	14
Assessed Valuation of Property Within the District .....	15
Tax Rates .....	21
Tax Charges and Delinquencies.....	22
Teeter Plan .....	24
Direct and Overlapping Debt .....	24
BOND INSURANCE .....	27
Bond Insurance Policies.....	27
Build America Mutual Assurance Company .....	27
TAX MATTERS.....	29
New Money Bonds .....	29
Refunding Bonds .....	30

## TABLE OF CONTENTS

(continued)

	<b>Page</b>
CERTAIN ERISA CONSIDERATIONS .....	34
OTHER LEGAL MATTERS.....	36
Legal Opinion .....	36
Legality for Investment in California .....	36
Continuing Disclosure .....	37
Litigation.....	37
ESCROW VERIFICATION .....	38
MISCELLANEOUS .....	38
Ratings .....	38
Professionals Involved in the Offering .....	38
Underwriting.....	39
ADDITIONAL INFORMATION.....	40
APPENDIX A INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET.....	A-1
APPENDIX B FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.....	B-1
APPENDIX C PROPOSED FORMS OF OPINIONS OF BOND COUNSEL .....	C-1
APPENDIX D FORMS OF CONTINUING DISCLOSURE CERTIFICATES .....	D-1
APPENDIX E COUNTY OF RIVERSIDE STATEMENT OF INVESTMENT POLICY.....	E-1
APPENDIX F COUNTY OF RIVERSIDE POOLED INVESTMENT FUND .....	F-1
APPENDIX G BOOK-ENTRY ONLY SYSTEM.....	G-1
APPENDIX H SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	H-1

**\$48,000,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Obligation Bonds, 2020 Election, Series 2020**

**\$14,000,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Obligation Bonds, 2012 Election, Series 2020E**

**\$30,140,000\***  
**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**2020 General Obligation Refunding Bonds (Federally Taxable)**

## **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 pages 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.*

### **General**

This Official Statement, which includes the cover page, inside cover pages and appendices hereto, is provided to furnish information in connection with the sale of (i) \$48,000,000\* aggregate principal amount of Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2020 Election, Series 2020A (the “Series 2020A Bonds”), (ii) \$14,000,000\* aggregate principal amount of Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2012 Election, Series 2020E (the “Series 2020E Bonds”), and (iii) \$30,140,000\* aggregate principal amount of Val Verde Unified School District (Riverside County, California) 2020 General Obligation Refunding Bonds (Federally Taxable) (the “Refunding Bonds”), all as indicated on the inside front cover hereof, to be offered by the Val Verde Unified School District (the “District”). The Series 2020A Bonds the Series 2020E Bonds are referred to collectively herein as the “New Money Bonds.” The New Money Bonds and the Refunding Bonds are collectively referred to herein as the “Bonds.”

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

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the resolutions of the Board of Education of the District providing for the issuance of each series of the Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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

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\* Preliminary; subject to change.

Copies of documents referred to herein and information concerning the Bonds are available from the District by contacting: Val Verde Unified School District, 975 West Morgan Street, Perris, California 92571, Attention: Deputy Superintendent, Business Services. The District may impose a charge for copying, handling and mailing such requested documents.

## **The District**

The Val Verde Unified School District (the “District”) is a public school district located in Riverside County in the State of California. The District services an area of approximately 67 square miles located in the County, including portions of the Cities of Moreno Valley and Perris and adjacent unincorporated areas of the County, and has a fiscal year 2019-20 enrollment of approximately 19,971 students. The District currently operates twelve elementary schools, four middle schools, three high schools, one continuation high school, one virtual academy, one opportunity school and one preschool. The District operates under the Riverside County Superintendent of Schools.

Excerpts from the District’s proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget, which reflect the May revision of the fiscal year 2020-21 proposed State budget based on guidance from the County Office of Education and initial impacts of the Coronavirus Disease 2019 (“COVID-19”) pandemic, are included in Appendix A. However, the District’s proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget have not yet been adopted by the Board of Education; the Board of Education is expected to review and adopt such financials on June 16, 2020. For more information regarding the District’s proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget and additional information about the District, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET” and APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

For specific information on the impact of COVID-19 pandemic (i) on the security and source of payment for the Bonds, see “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Assessed Valuation of Property Within the District” and “ – Tax Charges and Delinquencies,” (ii) on the District’s operations and finances, see APPENDIX A – “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak*,” and (iii) on the fiscal year 2019-20 State budget, the fiscal year 2020-21 proposed State budget, and the May revision of the fiscal year 2020-21 State budget, see APPENDIX A – “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *2019-20 State Budget*,” “ – *Proposed 2020-21 State Budget*” “ – *May Revision to the 2020-21 Proposed State Budget*,” and “ – *Changes in State Budget*.”

## **THE BONDS**

### **Authority for Issuance; Purpose**

**Series 2020A Bonds.** The Series 2020A Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIII A of the California Constitution and pursuant to a resolution adopted by the Board of Education of the District on June 2, 2020 relating to the Series 2020A Bonds (the “Series 2020A Resolution”). At an election held on March 3, 2020, the District received authorization by an affirmative vote of at least 55% of the votes cast on Measure C to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$192,000,000 to improve student safety/campus security systems, repair aging roofs/plumbing/electrical systems, upgrade classrooms/labs/facilities/equipment that support college/career readiness in math, science, engineering, technology, arts, skilled trades, and construct a middle school to relieve overcrowding (collectively, the “2020 Authorization”). The Series 2020A Bonds

represent the first series of authorized bonds to be issued under the 2020 Authorization and will be issued to (i) finance authorized construction and improvement projects approved by the voters of the District and (ii) pay costs of issuance with respect to the Series 2020A Bonds. See “–Plan of Finance.”

**Series 2020E Bonds.** The Series 2020E Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIII A of the California Constitution and pursuant to a resolution adopted by the Board of Education of the District on June 2, 2020 relating to the Series 2020E Bonds (the “Series 2020E Resolution”). At an election held on June 5, 2012, the District received authorization by an affirmative vote of at least 55% of the votes cast on Measure L to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$178,000,000 to update computers/technology in classrooms/science labs/libraries; provide facilities/equipment for career training/education; make funds available to attract/retain qualified teachers and project academic instruction; construct new high school facilities to relieve overcrowding (collectively, the “2012 Authorization”). The Series 2020E Bonds represent the fifth series of authorized bonds to be issued under the 2012 Authorization and will be issued to (i) finance authorized construction and improvement projects approved by the voters of the District and (ii) pay costs of issuance with respect to the Series 2020E Bonds. See “–Plan of Finance.” Prior to the issuance of the Series 2020E Bonds, the District has \$69,310,459.70 aggregate principal amount remaining that is authorized but unissued under the 2012 Authorization.

**Refunding Bonds.** The Refunding Bonds are issued pursuant to provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and other applicable law, and a resolution adopted by the Board of Education of the District on June 2, 2020, relating to the Refunding Bonds (the “Refunding Resolution” and together with the Series 2020 A Resolution and the Series 2020E Resolution, the “Resolutions”). The District received authorization under Measure L to issue bonds of the District under the 2012 Authorization (as described herein). On March 20, 2013, the County, at the request of the District, issued the Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2012 Election, 2013 Series A (the “Series 2013A Bonds”) in the aggregate principal amount of \$40,540,000 as the first series of the authorized bonds under the 2012 Authorization. Proceeds from the Refunding Bonds will be used for the purpose of refunding a portion of the Series 2013A Bonds. See “–Plan of Refunding.”

### **Bond Insurance Policies**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the New Money Bonds and for the Refunding Bonds (each, a “Policy” and together, the “Policies”). The Policies guarantee 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 H to this Official Statement. See “BOND INSURANCE.”

### **Form and Registration**

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

## Payment of Principal and Interest

**Interest.** The Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover pages of this Official Statement, payable on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing on August 1, 2020 for the Refunding Bonds and February 1, 2021 for the New Money Bonds, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15<sup>th</sup> day of the calendar month immediately preceding an Interest Payment Date for such Bond (the “Record Date”) and on or prior to the succeeding Interest Payment Date for such Bond, in which event it will bear interest from such Interest Payment Date for such Bond, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date for such Bond, in which event it will bear interest from its dated date; provided, however, that if, at the time of authentication of any Bond, interest is in default on any outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Bonds.

**Payment of Bonds.** The principal of the Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of Zions Bancorporation, National Association, as paying agent (the “Paying Agent”) at the maturity thereof or upon redemption prior to maturity.

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

## Redemption\*

**Optional Redemption of the New Money Bonds.** The New Money Bonds maturing on or before August 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The New Money Bonds maturing on or after August 1, 20\_\_, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 20\_\_, at a redemption price equal to the principal amount of the New Money Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

**Optional Redemption of the Refunding Bonds.** The Refunding Bonds maturing on or before August 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturity dates. The Refunding Bonds maturing on or after August 1, 20\_\_, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 20\_\_, at a redemption price equal to the principal amount of the Refunding Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

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\* Preliminary; subject to change.

**Mandatory Sinking Fund Redemption of the Series 2020A Bonds.** The \$\_\_\_\_\_ term Series 2020A Bonds maturing on August 1, 20\_\_ are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
†	\$
†	

† Maturity.

The principal amount of the \$\_\_\_\_\_ term Series 2020A Bonds maturing on August 1, 20\_\_, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series 2020A Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

**Mandatory Sinking Fund Redemption of the Series 2020E Bonds.** The \$\_\_\_\_\_ term Series 2020E Bonds maturing on August 1, 20\_\_ are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
†	\$
†	

† Maturity.

The principal amount of the \$\_\_\_\_\_ term Series 2020E Bonds maturing on August 1, 20\_\_, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Series 2020E Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

**Mandatory Sinking Fund Redemption of the Refunding Bonds.** The \$\_\_\_\_\_ term Refunding Bonds maturing on August 1, 20\_\_ are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
†	\$

† Maturity.

The principal amount of the \$\_\_\_\_\_ term Refunding Bonds maturing on August 1, 20\_\_, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of such term Refunding Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

**Selection of Bonds for Redemption.** If less than all of the Bonds are called for redemption, the Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Bond shall be deemed to consist of individual Bonds of denominations of \$5,000 principal amount, each, which may be separately redeemed.

**Notice of Redemption.** Notice of redemption of any Bond will be given by the Paying Agent not less than 20 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Bonds. See APPENDIX D – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.”

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Bonds to be redeemed; (vi) if less than all of the Bonds of any maturity are to be redeemed the distinctive numbers of the Bonds of each maturity to be redeemed; (vii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Bond or by any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

***Effect of Notice of Redemption.*** When notice of redemption has been given substantially as described above and when the redemption price of the Bonds called for redemption is set aside, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the "Interest and Sinking Fund") or the trust fund established for such purpose. All Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

***Right to Rescind Notice.*** 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 Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, 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.

***Funds for Redemption.*** Prior to or on the redemption date of any Refunding Bonds there is to be available in the Interest and Sinking Fund of the District, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the redemption prices as provided in the Refunding Resolution provided, the Refunding Bonds designated in the notice of redemption. Such monies are to be applied on or after the redemption date solely for payment of principal of, interest and premium, if any, on the Refunding Bonds to be redeemed upon presentation and surrender of such Refunding Bonds, provided that all monies in the Interest and Sinking Fund of the District are to be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date is to be paid from the Interest and Sinking Fund of the District, unless otherwise provided to be paid from such monies held in trust. If, after all of the Refunding Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Interest and Sinking Fund of the District or otherwise held in trust for the payment of redemption price of the Refunding Bonds, the monies are to be held in or returned or transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from such fund; provided, however, that if the monies are part of the proceeds of bonds of the District, the monies are to be transferred to the fund created for the payment of principal of and interest on such bonds. If no such bonds of the District are at such time outstanding, the monies are to be transferred to the general fund of the District as provided and permitted by law.

## **Defeasance of Bonds**

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America (including zero interest bearing State and Local Government Series) or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

## **Unclaimed Moneys**

Any money held in any fund created pursuant to the Resolutions or by the Paying Agent or an escrow agent in trust for the payment of the principal of, redemption premium, if any, or interest on any series of the Bonds and remaining unclaimed for two years after the principal of such Bonds has become due and payable (whether by maturity or upon prior redemption) is required to be transferred to the Interest and Sinking Fund for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys is required to be transferred to the general fund of the District as provided and permitted by law.

## **Plan of Finance\***

The Series 2020A Bonds will be issued to (i) finance authorized construction and improvement projects approved by the voters of the District under the 2020 Authorization and (ii) pay costs of issuance with respect to the Series 2020A Bonds. The Series 2020E Bonds will be issued to (i) finance authorized construction and improvement projects approved by the voters of the District under the 2012 Authorization and (ii) pay costs of issuance with respect to the Series 2020E Bonds.

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

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\* Preliminary; subject to change.

## Plan of Refunding\*

The Refunding Bonds will be issued (i) to refund and defease a portion of the Series 2013A Bonds, maturing on August 1 in the years 2038 and 2042, as set forth below (the “Refunded Bonds”), and (ii) to pay certain costs of issuance of the Refunding Bonds.

Refunded Bonds					
Maturity Date (August 1,)	Principal Amount	Interest Rate	CUSIP Number <sup>(1)</sup>	Redemption Date	Redemption Price
2038	\$12,515,000	5.000%	918820CL3	August 1, 2023	100.000%
2042	13,005,000	5.000	918820CM1	August 1, 2023	100.000

The maturities of the District’s Series 2013A Bonds listed in the following table will not be refunded with proceeds of the Refunding Bonds.

Unrefunded Series 2013A Bonds				
Maturity Date (August 1,)	Original Principal Amount	Interest Rate	CUSIP Number <sup>(1)</sup>	
2020	\$ 200,000	2.000%	918820CA7	
2021	280,000	3.000	918820CB5	
2022	370,000	3.000	918820CC3	
2023	460,000	3.000	918820CD1	
2024	560,000	3.000	918820CE9	
2025	665,000	3.000	918820CF6	
2026	775,000	3.000	918820CG4	
2027	900,000	3.125	918820CH2	
2028	1,025,000	3.250	918820CJ8	
2033	7,395,000	3.500	918820CK5	

The District and U.S. Bank National Association, as escrow bank (the “Escrow Bank”) will enter into the Escrow Agreement, dated as of June 1, 2020 (the “Escrow Agreement”), with respect to the Refunded Bonds, pursuant to which the District will deposit a portion of the proceeds from the sale of the Refunding Bonds into a special fund to be held by the Escrow Bank. The amounts deposited with the Escrow Bank with respect to the Refunded Bonds, which will be held pursuant to the Escrow Agreement, will be used to purchase noncallable direct obligations issued by the United States Treasury (State and Local Government Series) or obligations which are unconditionally guaranteed by the United States of America (collectively, “Defeasance Securities”), the principal of and interest on which (together with any uninvested amount) will be sufficient to enable the Escrow Bank (i) to pay, when due, the interest on the Refunded Bonds to and including February 1, 2023 and (ii) to redeem the Refunded Bonds on August 1, 2023 (the “Redemption Date”) at a redemption price (the “Redemption Price”) equal to the principal amount of the Refunded Bonds called for redemption, together with interest accrued thereon from the last interest payment date for which interest has been paid on the Refunded Bonds to the Redemption Date, without premium. See “ESCROW VERIFICATION” herein. Amounts on deposit with the Escrow Bank pursuant to the Escrow Agreement are not available to pay debt service on the Refunding Bonds.

\* Preliminary; subject to change.

<sup>(1)</sup> CUSIP numbers are provided for convenience of reference only. None of the District, the Underwriter or their agents or counsel assumes responsibility for the accuracy of such CUSIP numbers.

**Estimated Sources and Uses of Funds**

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

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
General Obligation Bonds, 2020 Election, Series 2020A,  
General Obligation Bonds, 2012 Election, Series 2020E, and  
2020 General Obligation Refunding Bonds (Federally Taxable)**

**Estimated Sources and Uses of Funds**

<u>Sources of Funds:</u>	Series 2020A Bonds	Series 2020E Bonds	Refunding Bonds	Total
Principal Amount	\$	\$	\$	\$
[Plus/Less] [Net] Original Issue [Premium/Discount]			-	
Total Sources of Funds	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>Uses of Funds:</u>				
Escrow Fund	-	-	\$	\$
Deposit to Building Fund	\$	\$	-	
Deposit to Interest and Sinking Fund <sup>(1)</sup>			-	
Underwriter's Discount Costs of Issuance <sup>(2)</sup>				
Total Uses of Funds	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

<sup>(1)</sup> Consists of premium received by the District.

<sup>(2)</sup> Includes legal fees, municipal advisor fees, rating agency fees, bond insurance premiums, printing fees, and other miscellaneous expenses.

**Debt Service**

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

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
General Obligation Bonds, 2020 Election, Series 2020A,  
General Obligation Bonds, 2012 Election, Series 2020E and  
2020 General Obligation Refunding Bonds (Federally Taxable)**

Year Ending August 1,	Series 2020A Bonds		Series 2020E Bonds		Refunding Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2020	\$	\$	\$	\$	\$	\$	\$
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2034							
2035							
2036							
2037							
2038							
2039							
2040							
2041							
2042							
2043							
2044							
2045							
2046							
2047							
2048							
2049							
Total:	\$	\$	\$	\$	\$	\$	\$

Source: Piper Sandler & Co.

## Outstanding Bonds

In addition to the Series 2020A Bonds, the Series 2020E Bonds, and the Refunding Bonds, the District has six series of general obligation bonds outstanding, which are secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Bonds.

**2008 Authorization.** At an election held on June 3, 2008, the District received authorization by an affirmative vote of at least 55% of the votes cast on Measure J to issue bonds of the District in an aggregate principal amount not to exceed \$43,440,000 for rehabilitating inadequate heating, ventilation, sewer, drainage and safety/security systems; upgrading school technology; replacing portables with permanent classrooms; and renovating, acquiring, constructing and equipping classrooms and schools in the District (collectively, the “2008 Authorization”). On August 27, 2008, the County, at the request of the District, issued the Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2008 Election, 2008 Series A (the “Series 2008A Bonds”) in the aggregate principal amount of \$30,000,000 as the District’s first series of bonds to be issued under the 2008 Authorization. On February 25, 2010, the County, at the request of the District, issued the Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2008 Election, 2010 Series B (the “Series 2010B Bonds”) in the aggregate initial principal amount of \$13,436,947.70 as the District’s second and final series of bonds to be issued under the 2008 Authorization. On September 22, 2016, the District issued its 2016 General Obligation Refunding Bonds, Series A (2018 Crossover Refunding) (the “2016 Refunding Bonds”), to advance refund, on a crossover basis, a portion of the outstanding Series 2008A Bonds.

**2012 Authorization.** At an election held on June 5, 2012, the District received authorization by an affirmative vote of at least 55% of the votes cast on Measure L to issue bonds of the District in an aggregate principal amount not to exceed \$178,000,000 under the 2012 Authorization. On March 20, 2013, the County, at the request of the District, issued the Series 2013A Bonds in the aggregate principal amount of \$40,540,000 as the District’s first series of bonds to be issued under the 2012 Authorization. On March 4, 2015, the County, at the request of the District, issued the Val Verde Unified School District (County of Riverside, California) General Obligation Bonds, 2012 Election, Series 2015B (the “Series 2015B Bonds”) in an aggregate initial principal amount of \$38,949,540.30 as the District’s second series of bonds to be issued under the 2012 Authorization. On September 22, 2016, the County, at the request of the District, issued the Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2012 Election, Series 2016C (the “Series 2016C Bonds”) in an aggregate principal amount of \$19,200,000 as the District’s third series of bonds to be issued under the 2012 Authorization. On January 30, 2019, the District issued its General Obligation Bonds, 2012 Election, Series 2019D in an aggregate principal amount of \$10,000,000 (the “Series 2019D Bonds”) as the District’s fourth series of bonds to be issued under the 2012 Authorization. Prior to the issuance of the Series 2020E Bonds, the District has \$69,310,459.70 aggregate principal amount remaining that is authorized but unissued under the 2012 Authorization.

**2020 Authorization.** At an election held on March 3, 2020, the District received authorization by an affirmative vote of at least 55% of the votes cast on Measure C to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$192,000,000. The Series 2020A Bonds will be the first series of bonds to be issued under the 2020 Authorization.

## Aggregate Debt Service

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

### VAL VERDE UNIFIED SCHOOL DISTRICT (Riverside County, California) General Obligation Bonds – Aggregate Debt Service

Period Ending August 1,	Series 2010B Bonds	2016 Refunding Bonds	Series 2013A Bonds <sup>(1)</sup>	Series 2015B Bonds	Series 2016C Bonds	Series 2019D Bonds	Series 2020E Bonds	Series 2020A Bonds	Refunding Bonds	Aggregate Total Debt Service
2020	-	\$ 1,862,018.76	\$ 1,893,562.50	\$ 1,677,268.76	\$ 800,268.76	\$ 393,700.00	\$	\$	\$	\$
2021	-	1,887,618.76	1,969,562.50	1,747,268.76	816,818.76	393,700.00				
2022	-	1,905,618.76	2,051,162.50	1,812,268.76	832,768.76	408,700.00				
2023	\$ 139,037.50	1,931,218.76	2,130,062.50	1,887,268.76	858,118.76	418,250.00				
2024	139,037.50	1,959,018.76	2,216,262.50	1,965,768.76	867,568.76	437,500.00				
2025	139,037.50	1,976,268.76	2,304,462.50	2,044,268.76	891,568.76	456,150.00				
2026	139,037.50	1,999,518.76	2,394,512.50	2,127,268.76	914,668.76	473,550.00				
2027	139,037.50	1,963,268.76	2,496,262.50	2,204,268.76	936,868.76	490,150.00				
2028	139,037.50	1,965,268.76	2,593,137.50	2,295,268.76	960,268.76	509,900.00				
2029	139,037.50	1,983,518.76	2,699,825.00	2,385,268.76	982,268.76	533,400.00				
2030	856,164.15	1,962,018.76	2,804,050.00	2,485,268.76	1,002,868.76	555,400.00				
2031	889,461.50	2,054,418.76	2,913,200.00	2,590,268.76	1,028,487.50	575,900.00				
2032	1,014,037.50	2,055,418.76	3,036,925.00	2,685,268.76	1,057,737.50	594,900.00				
2033	1,110,650.00	2,088,418.76	3,154,525.00	2,795,268.76	1,085,987.50	627,400.00				
2034	488,175.00	-	3,281,000.00	2,905,268.76	717,600.00	667,650.00				
2035	-	-	3,415,750.00	3,020,268.76	743,337.50	695,150.00				
2036	-	-	3,548,750.00	3,145,268.76	773,250.00	719,350.00				
2037	-	-	3,689,500.00	3,270,268.76	807,200.00	750,212.50				
2038	-	-	3,837,000.00	3,405,268.76	836,800.00	779,012.50				
2039	-	-	3,995,250.00	3,535,268.76	869,800.00	810,637.50				
2040	-	-	4,153,000.00	3,680,268.76	906,000.00	840,512.50				
2041	-	-	4,319,500.00	3,825,268.76	945,200.00	872,856.26				
2042	-	-	2,068,500.00	6,402,768.76	982,200.00	908,206.26				
2043	-	-	-	8,809,768.76	1,022,000.00	946,381.26				
2044	-	-	-	9,163,018.76	1,064,400.00	977,200.00				
2045	-	-	-	-	10,639,200.00	1,017,600.00				
2046	-	-	-	-	-	1,040,000.00				
2047	-	-	-	-	-	-				
2048	-	-	-	-	-	-				
2049	-	-	-	-	-	-				
<b>Total:</b>	<b>\$5,331,750.65</b>	<b>\$27,593,612.64</b>	<b>\$66,965,762.50</b>	<b>\$81,864,969.00</b>	<b>\$33,343,256.36</b>	<b>\$17,893,368.78</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

<sup>(1)</sup> Does not reflect the planned refunding of the Refunded Bonds with proceeds of the Refunding Bonds.  
Source: Fieldman, Rolapp & Associates, Inc.

## **SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**

### **General**

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

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

### **Statutory Lien on Taxes (Senate Bill 222)**

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

### **Pledge of Tax Revenues**

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

### **Property Taxation System**

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

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

### **Assessed Valuation of Property Within the District**

Taxable property located in the District has a fiscal year 2019-20 assessed value of \$10,069,920,324. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

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

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

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

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

The following table sets forth the assessed valuation of the various classes of property in the District’s boundaries from fiscal years 2012-13 through 2019-20, each as of the date that the equalized assessment roll is established in August of each year.

**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**Assessed Valuations**  
**Fiscal Years 2012-13 through 2019-20**

Fiscal Year	Local Secured	Utility	Unsecured	Total Valuation
2012-13	\$4,894,739,424	\$222,020	\$181,358,021	\$5,076,319,465
2013-14	5,079,876,787	222,020	201,956,215	5,282,055,022
2014-15	5,827,920,130	222,020	205,348,024	6,033,490,174
2015-16	6,349,895,666	222,020	350,853,060	6,700,970,746
2016-17	6,815,105,738	222,020	480,011,354	7,295,339,112
2017-18	7,362,171,933	222,020	465,788,592	7,828,182,545
2018-19	8,302,464,989	-	572,110,648	8,874,575,637
2019-20	9,416,364,226	-	653,556,098	10,069,920,324

Source: California Municipal Statistics, Inc.

***Risk of Decline in Property Values.*** Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District’s control, such as a general market decline in property values, including potential market declines caused by the effects of a reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), pandemic, or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, landslide, liquefaction, levee failure, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also “–*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

***Risk of Changing Economic Conditions.*** Property values could be reduced by factors beyond the District’s control, including a depressed real estate market due to general economic conditions in the County, the region, and the State. With the outbreak of COVID-19, the world is currently experiencing a global pandemic. The pandemic may result in an economic recession or depression that causes a general market decline in property values therefore affecting the assessed value of property in the District. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “DISTRICT

FINANCIAL MATTERS – State Funding of Education; State Budget Process – Infectious Disease Outbreak.”

***Risk of Earthquake.*** Property values could be reduced by the complete or partial destruction of taxable property as a result of an earthquake. The District is located in a seismically active region. The notable earthquake faults include the San Andreas and San Jacinto faults.

***Risk of Drought.*** In recent years California has experienced severe drought conditions. In January 2014, the Governor declared a state-wide Drought State of Emergency due to the State facing serious water shortfalls due to the driest year in recorded history in the State and the resultant record low levels measured in State rivers and reservoirs. The California State Water Resources Control Board (the “State Water Board”) subsequently issued a Statewide notice of water shortages and potential future curtailment of water right diversions. In April 2017, the Governor of the State lifted the drought emergency declaration, while retaining a prohibition on wasteful practices and advancing conservation measures. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

***Risk of Wildfire.*** Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District. In recent years, portions of California, including the County and adjacent counties, have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures. In July 2018, the Cranston Fire burned approximately 13,139 acres of land in the County according to the California Department of Forestry and Fire Protection. Within the boundaries of the District, no property was damaged or destroyed by the Cranston Fire or other recent wildfires. Further, no District facilities were damaged or destroyed by the Cranston Fire or other recent wildfires. It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

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

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property’s then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner’s property by filing a written application with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner’s property in any one year must submit an application to the county assessment appeals board (the “Appeals Board”). Following a review of the application by the county assessor’s office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for

which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (such pre-reduction level escalated by the annual inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

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

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

See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues” for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

**Bonding Capacity.** As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District’s fiscal year 2019-20 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$251.75 million and its net bonding capacity is approximately \$124.94 million (taking into account current outstanding debt before the issuance of the Bonds and not accounting for the refunding of the Refunded Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District’s bonding capacity.

**Assessed Valuation by Jurisdiction.** The following table describes the percentage and value of the total assessed valuation of the property within the District’s boundaries that reside in the City of Moreno Valley, the City of Perris and unincorporated portions of the County for fiscal year 2019-20.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Fiscal Year 2019-20 Assessed Valuation by Jurisdiction**

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Moreno Valley	\$3,712,762,615	36.87%	\$17,111,124,143	21.70%
City of Perris	4,267,869,447	42.38	6,894,292,389	61.90
Unincorporated Riverside County	2,089,288,262	20.75	45,632,869,416	4.58
Total District	\$10,069,920,324	100.00%		
Riverside County	\$10,069,920,324	100.00%	\$295,937,605,964	3.40%

Source: California Municipal Statistics, Inc.

**Assessed Valuation by Land Use.** The following table sets forth a distribution of taxable property located in the District on the fiscal year 2019-20 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Fiscal Year 2019-20 Assessed Valuation and Parcels by Land Use**

	2019-20 Assessed Valuation <sup>(1)</sup>	% of Total	No. of Parcels	% of Total
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 95,796,360	1.02%	370	1.49%
Commercial/Industrial	3,995,430,569	42.43	505	2.04
Vacant Commercial/Industrial	467,194,361	4.96	935	3.77
Other Vacant/Miscellaneous	48,811,247	0.52	969	3.91
Subtotal Non-Residential	<u>\$4,607,232,537</u>	48.93%	<u>2,779</u>	11.20%
<b>Residential:</b>				
Single Family Residence	\$4,198,298,402	44.59%	16,578	66.84%
Condominium/Townhouse	84,840,714	0.90	539	2.17
Mobile Home/Lots	336,976,641	3.58	3,101	12.50
2-4 Residential Units	43,800,290	0.47	135	0.54
5+ Residential Units/Apartments	60,575,823	0.64	9	0.04
Miscellaneous Residential	1,542,158	0.02	8	0.03
Vacant Residential	83,097,661	0.88	1,654	6.67
Subtotal Residential	<u>\$4,809,131,689</u>	51.07%	<u>22,024</u>	88.80%
<b>TOTAL</b>	<b>\$9,416,364,226</b>	<b>100.00%</b>	<b>24,803</b>	<b>100.00%</b>

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

**Assessed Valuation of Single-Family Homes.** The following table sets forth the assessed valuation of single-family homes in the District’s boundaries for fiscal year 2019-20, including the average and median per parcel assessed value.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Fiscal Year 2019-20 Per Parcel Assessed Valuation of Single Family Homes**

	Number of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	16,578	\$4,198,298,402	\$253,245	\$247,710

2019-20 Assessed Valuation	No. of Parcels <sup>(1)</sup>	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	14	0.084%	0.084%	\$292,749	0.007%	0.007%
\$25,000 - \$49,999	50	0.302	0.386	1,974,790	0.047	0.054
\$50,000 - \$74,999	83	0.501	0.887	5,438,244	0.130	0.184
\$75,000 - \$99,999	299	1.804	2.690	26,797,121	0.638	0.822
\$100,000 - \$124,999	623	3.758	6.448	70,747,437	1.685	2.507
\$125,000 - \$149,999	1,117	6.738	13.186	154,613,049	3.683	6.190
\$150,000 - \$174,999	1,566	9.446	22.632	255,689,265	6.090	12.280
\$175,000 - \$199,999	1,772	10.689	33.321	332,098,069	7.910	20.190
\$200,000 - \$224,999	1,494	9.012	42.333	316,411,294	7.537	27.727
\$225,000 - \$249,999	1,449	8.740	51.074	344,316,658	8.201	35.928
\$250,000 - \$274,999	1,435	8.656	59.730	377,329,317	8.988	44.916
\$275,000 - \$299,999	1,401	8.451	68.181	402,362,114	9.584	54.500
\$300,000 - \$324,999	1,510	9.108	77.289	472,399,746	11.252	65.752
\$325,000 - \$349,999	1,277	7.703	84.992	429,419,351	10.228	75.981
\$350,000 - \$374,999	907	5.471	90.463	327,655,507	7.804	83.785
\$375,000 - \$399,999	607	3.661	94.125	234,215,010	5.579	89.364
\$400,000 - \$424,999	388	2.340	96.465	159,148,759	3.791	93.155
\$425,000 - \$449,999	206	1.243	97.708	89,718,777	2.137	95.292
\$450,000 - \$474,999	137	0.826	98.534	63,222,524	1.506	96.798
\$475,000 - \$499,999	80	0.483	99.017	38,848,852	0.925	97.723
\$500,000 and greater	163	0.983	100.000%	95,599,769	2.277	100.000
Total	16,578	100.000%		\$4,198,298,402	100.000%	100.000%

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

**Largest Taxpayers in District.** The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2019-20 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Largest Fiscal Year 2019-20 Local Secured Taxpayers**

Property Owner	Primary Land Use	2019-20 Assessed Valuation	Percent of Total <sup>(1)</sup>
1. Duke Realty LP	Industrial	\$425,928,263	4.52%
2. First Industrial	Industrial	274,063,114	2.91
3. Ross Dress for Less Inc.	Industrial	245,465,813	2.61
4. BT OH	Industrial	153,502,350	1.63
5. Stratford Ranch 1	Industrial	139,025,576	1.48
6. DB Rreef Perris CA Inc.	Industrial	131,916,857	1.40
7. FR Cal Moreno Valley	Industrial	125,434,404	1.33
8. Ore Industrial	Industrial	124,686,415	1.32
9. FR Cal Indian Avenue	Industrial	119,277,171	1.27
10. IIT Inland Empire 3700 Indian Ave.	Industrial	106,120,799	1.13
11. Ferguson Enterprises Inc.	Industrial	99,546,996	1.06
12. 17350 Perris Boulevard	Industrial	97,906,486	1.04
13. March Business Center	Industrial	96,754,597	1.03
14. 1215 Logistics	Industrial	91,147,984	0.97
15. Gateway Empire	Industrial	85,004,000	0.90
16. Knox Logistics	Industrial	84,860,779	0.90
17. Walgreen Co.	Industrial	77,985,454	0.83
18. IPT Perris DC	Industrial	74,710,014	0.79
19. HD California DFDC Landlord	Industrial	68,576,714	0.73
20. CPT Perris Industrial	Industrial	68,288,977	0.73
		\$2,690,202,763	28.57%

<sup>(1)</sup> 2019-20 local secured assessed valuation: \$9,416,364,226  
Source: California Municipal Statistics, Inc.

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

**Tax Rates**

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

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

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

**Typical Tax Rate Area.** The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 21-388). This Tax Rate Area comprises approximately 6.08% of the total assessed value of the District for fiscal year 2019-20.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 21-388)  
Fiscal Years 2015-16 through 2019-20**

	2015-16	2016-17	2017-18	2018-19	2019-20
General Tax Rate	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Val Verde Unified School District	0.07135	0.07210	0.06368	0.06966	0.06368
Riverside City Community College District	0.01725	0.01649	0.01616	0.01478	0.01476
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
Eastern Municipal Water District I.D. U-22	0.01100	0.01100	0.01000	0.01000	0.01000
Total Tax Rate	1.10310%	1.10309%	1.09334%	1.09794%	1.09194%

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2012 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2012 Authorization will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Similarly, in accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2020 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2020 Authorization will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2020E Bonds, the District projects that the maximum tax rate required to repay the Series 2020E Bonds, the Series 2013A Bonds, the Series 2015B Bonds, the Series 2016C Bonds, and the Series 2019D Bonds, which are the only other outstanding bonds approved at the 2012 Authorization, will be within the legal limit under the 2012 Authorization. Based on the assessed value of taxable property in the District at the time of issuance of the Series 2020A Bonds, the District projects that the maximum tax rate required to repay the Series 2020A Bonds, which are the only outstanding bonds approved under the 2020 Authorization, will be within the legal limit under the 2020 Authorization. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2020E Bonds and any other series of bonds issued under the 2012 Authorization or the Series 2020A Bonds and any other series of bonds issued under the 2020 Authorization, in each year.

**Tax Charges and Delinquencies**

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

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer. The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed. As a result of the recent outbreak of COVID-19, property owners within the County affected by COVID-19 may submit a request to have late penalties cancelled if they are unable to pay their property taxes by the April 10, 2020 deadline as a result of hardships caused by COVID-19. However, the County has adopted the Teeter Plan (defined herein), according to which the County distributes to the District the amount levied on the secured and supplemental tax rolls, instead of the amount actually collected. See “– Teeter Plan” below. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “STATE FUNDING OF SCHOOL DISTRICTS – Local Control Funding Formula – *Infectious Disease Outbreak*.”

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

Property tax delinquencies may be impacted by economic and other factors beyond the District’s control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression can be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of a natural or manmade disaster, such as earthquake, drought, flood, fire, toxic dumping or pandemic. It is not possible for the District to make any representation regarding the extent to which an economic recession or depression could impact the ability or willingness of property owners within the District to pay property taxes in the future. However, the County has adopted the Teeter Plan (defined herein), according to which the County distributes to the District the amount levied on the secured and supplemental tax rolls, instead of the amount actually collected. See “– Teeter Plan” below. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak*.”

The following table sets forth real property tax charges and corresponding delinquencies for the District’s general obligation bond debt service levy, with respect to the property located in the District. The County does not provide the real property tax charges and corresponding delinquencies for the 1% general fund apportionment with respect to property located in the County. See “– Teeter Plan” below.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Secured Tax Charges and Delinquencies  
Fiscal Years 2014-15 through 2018-19**

	Secured Tax Charge <sup>(1)</sup>	Amount Delinquent June 30	% Delinquent June 30
2014-15	\$4,546,073.76	\$74,652.11	1.64%
2015-16	4,488,313.26	41,659.50	0.93
2016-17	4,882,447.22	66,956.46	1.37
2017-18	4,662,928.59	46,701.56	1.00
2018-19	5,761,401.33	73,886.31	1.28

<sup>(1)</sup> Debt service levy only.

Source: California Municipal Statistics, Inc.

**Teeter Plan**

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the full amount of uncollected taxes on the secured roll credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district bonds.

The Teeter Plan is to remain in effect unless the board of supervisors of a county orders its discontinuance or unless, prior to the commencement of any fiscal year of a county (which commences on July 1), the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in such county. The board of supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in such county if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. The District is not aware of any plans by the Board of Supervisors of the County to discontinue the Teeter Plan.

**Direct and Overlapping Debt**

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective March 20, 2020 for debt outstanding as of April 1, 2020. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column

three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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

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**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Statement of Direct and Overlapping Bonded Debt**

March 20, 2020

2019-20 Assessed Valuation: \$10,069,920,324

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/20</u>
Metropolitan Water District	0.326%	\$121,598
Eastern Municipal Water District Improvement District No. U-9	79.016	1,973,820
Eastern Municipal Water District Improvement District No. U-22	32.463	716,458
Riverside County Flood Control District Zone No. 4	16.761	2,100,153
Riverside City Community College District	8.945	25,418,650
Val Verde Unified School District	100.000	126,804,668 <sup>(1)</sup>
Val Verde Unified School District Community Facilities District	100.000	41,095,000
Eastern Municipal Water District Community Facilities District No. 2003-25, Improvement Area C and D	65.349 & 100.000	5,749,973
City of Moreno Valley Community Facilities District No. 7	100.000	3,115,000
City of Perris Community Facilities Districts	8.350-100.000	84,876,064
County Community Facilities Districts	86.084	1,080,354
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$293,051,738</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	3.403%	\$21,116,445
Riverside County Pension Obligation Bonds	3.403	7,446,785
Val Verde Unified School District Certificates of Participation	100.000	55,330,000
Western Municipal Water District General Fund Obligations	0.152	11,883
City of Moreno Valley Certificates of Participation	21.698	17,024,034
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$105,929,147</b>
Less: Riverside County supported obligations		30,099
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$105,899,048</b>
 <u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Successor Agency to Perris Redevelopment Agency	58.052%	\$33,751,433
Successor Agency to Riverside County Redevelopment Agency	6.915-55.720	74,565,433
Successor Agency to Moreno Valley Redevelopment Agency	0.862	344,628
<b>TOTAL OVERLAPPING TA INCREMENT DEBT</b>		<b>\$108,661,494</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>\$507,642,379<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$507,612,280</b>

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$126,804,668).....	1.26%
Total Overlapping Tax and Assessment Debt .....	2.91%
Combined Direct Debt (\$182,134,668) .....	1.81%
Gross Combined Total Debt .....	5.04%
Net Combined Total Debt .....	5.04%

Ratios to Redevelopment Incremental Valuation (\$3,119,526,124):

Overlapping Tax Increment Debt .....	3.48%
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<sup>(1)</sup> Excludes the New Money Bonds and the Refunding Bonds; includes the Refunded Bonds.

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

Source: California Municipal Statistics, Inc.

## **BOND INSURANCE**

### **Bond Insurance Policies**

Concurrently with the issuance of the Bonds, BAM will issue its Policies for the Bonds. The Policies guarantee 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 H to this Official Statement.

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

### **Build America Mutual Assurance Company**

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: **[www.buildamerica.com](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 Policies), 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 March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 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.

## TAX MATTERS

### New Money Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the New Money Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the New Money Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

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

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

Money Bonds may adversely affect the value of, or the tax status of interest on, the New Money Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the New Money Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the New Money Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

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

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

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

## **Refunding Bonds**

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of

interest on, the Refunding Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Refunding Bonds that acquire their Refunding Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Refunding Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Refunding Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Refunding Bonds pursuant to this offering for the issue price that is applicable to such Refunding Bonds (i.e., the price at which a substantial amount of the Refunding Bonds are sold to the public) and who will hold their Refunding Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Refunding Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Refunding Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Refunding Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Refunding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Refunding Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Refunding Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Refunding Bonds in light of their particular circumstances.

## ***U.S. Holders***

***Interest.*** Interest on the Refunding Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

Refunding Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Refunding Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Refunding Bond.

***Sale or Other Taxable Disposition of the Refunding Bonds.*** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Refunding Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Refunding Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Refunding Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Refunding Bond (generally, the purchase price paid by the U.S. Holder for the Refunding Bond, decreased by any amortized premium. Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Refunding Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Refunding Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

***Defeasance of the Refunding Bonds.*** If the District defeases any Refunding Bond, the Refunding Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the Refunding Bond.

***Information Reporting and Backup Withholding.*** Payments on the Refunding Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Refunding Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Refunding Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Refunding Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

### ***Non-U.S. Holders***

***Interest.*** Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act,” payments of principal of, and interest on, any Refunding Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such Refunding Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the Refunding Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

***Disposition of the Refunding Bonds.*** Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District or a deemed retirement due to defeasance of the Refunding Bond ) or other disposition of a Refunding Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

***U.S. Federal Estate Tax.*** A Refunding Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that, at the time of such individual’s death, payments of interest with respect to such Refunding Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

***Information Reporting and Backup Withholding.*** Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Regulations, payments of principal and interest on any Refunding Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Refunding Bond or a financial institution holding the Refunding Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

### ***Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders***

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements

imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Refunding Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Refunding Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

### **CERTAIN ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain restrictions on employee pension and welfare benefit plans subject to ERISA (“ERISA Plans”) regarding prohibited transactions, and also imposes certain obligations on those persons who are fiduciaries with respect to ERISA Plans. Section 4975 of the Code imposes similar prohibited transaction restrictions on certain plans, including (i) tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under section 501(a) of the Code and which are not governmental or church plans as defined herein (“Qualified Retirement Plans”), and (ii) individual retirement accounts (“IRAs”) described in Section 408(b) of the Code (the foregoing in clauses (i) and (ii), “Tax-Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements or Section 4975 of the Code, but may be subject to requirements or prohibitions under applicable federal, state, local, non-U.S. or other laws or regulations that are, to a material extent, similar to the requirements of ERISA and Section 4975 of the Code (“Similar Law”).

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, ERISA Plans are subject to prohibited transaction restrictions imposed by Section 406 of ERISA. ERISA Plans and Tax-Favored Plans are also subject to prohibited transaction restrictions imposed by Section 4975 of the Code. These rules generally prohibit a broad range of transactions between (i) ERISA Plans, Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and (ii) persons who have certain specified relationships to the Benefit Plans (such persons are referred to as “Parties in Interest” or “Disqualified Persons”), in each case unless a statutory, regulatory or administrative exemption is available. The definitions of “Party in Interest” and “Disqualified Person” are expansive. While other entities may be encompassed by those definitions, they include most notably: (1) a fiduciary with respect to a Benefit Plan; (2) a person providing services to a Benefit Plan; (3) an employer or employee organization any of whose employees or members are covered by a Benefit Plan; and (4) an owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a non-exempt prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory, regulatory or administrative exemption is available. Without an exemption, an owner of an IRA may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the Refunding Bonds might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the District were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of

Labor at 29 C.F.R. section 2510.3-101, as modified by Section 3(42) of ERISA (the “Plan Assets Regulation”), the assets of the District would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code if the Benefit Plan acquires an “equity interest” in the District and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Although there can be no assurances in this regard, it appears that the Refunding Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation and accordingly the assets of the District should not be treated as the assets of Benefit Plans investing in the Refunding Bonds. The debt treatment of the Refunding Bonds for ERISA purposes could change subsequent to issuance of the Refunding Bonds. In the event of a withdrawal or downgrade to below investment grade of the rating of the Refunding Bonds or a characterization of the Refunding Bonds as other than indebtedness under applicable local law, the subsequent purchase of the Refunding Bonds or any interest therein by a Benefit Plan is prohibited.

However, without regard to whether the Refunding Bonds are treated as an equity interest for such purposes, the acquisition or holding of Refunding Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the District or the Paying Agent, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. The fiduciary of a Benefit Plan that proposes to purchase and hold any Refunding Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest or a Disqualified Person, (ii) the sale or exchange of any property between a Benefit Plan and a Party in Interest or a Disqualified Person, or (iii) the transfer to, or use by or for the benefit of, a Party in Interest or a Disqualified Person, of any Benefit Plan assets.

Certain status-based exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Refunding Bond. These are commonly referred to as prohibited transaction class exemptions or “PTCEs”. Included among these exemptions are:

PTCE 75-1, which exempts certain transactions between a Benefit Plan and certain brokers-dealers, reporting dealers and banks;

PTCE 96-23, which exempts transactions effected at the sole discretion of an “in-house asset manager”;

PTCE 90-1, which exempts certain investments by an insurance company pooled separate account;

PTCE 95-60, which exempts certain investments effected on behalf of an “insurance company general account”;

PTCE 91-38, which exempts certain investments by bank collective investment funds; and

PTCE 84-14, which exempts certain transactions effected at the sole discretion of a “qualified professional asset manager.”

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code, commonly referred to as the “Service Provider Exemption”. The Service Provider Exemption covers transactions involving “adequate consideration” between Benefit Plans and persons who are Parties in Interest or Disqualified Persons solely by reason of providing services to such Benefit Plans or who are persons affiliated with such service providers, provided generally that such persons are not fiduciaries with

respect to “plan assets” of any Benefit Plan involved in the transaction and that certain other conditions are satisfied.

The availability of each of these PTCs and/or the Service Provider Exemption is subject to a number of important conditions which the Benefit Plan’s fiduciary must consider in determining whether such exemptions apply. There can be no assurance that all the conditions of any such exemptions will be satisfied at the time that the Refunding Bonds are acquired by a purchaser, or thereafter, if the facts relied upon for utilizing a prohibited transaction exemption change, or that the scope of relief provided by these exemptions will necessarily cover all acts that might be construed as prohibited transactions. Therefore, a Benefit Plan fiduciary considering an investment in the Refunding Bond should consult with its counsel prior to making such purchase.

By its acceptance of a Refunding Bond (or an interest therein), each purchaser and transferee (and if the purchaser or transferee is a Benefit Plan, its fiduciary) will be deemed to have represented and warranted that either (i) no “plan assets” of any Benefit Plan or a plan subject to Similar Law have been used to purchase such Refunding Bond or (ii) the purchase and holding of such Refunding Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory, regulatory or administrative exemption and will not violate Similar Law. A purchaser or transferee who acquires Refunding Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

None of the District, the Paying Agent, or the Underwriter is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the acquisition or transfer of the Refunding Bonds by any Benefit Plan.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that any Benefit Plan fiduciary or other person considering whether to purchase Refunding Bonds on behalf of a Benefit Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any exemption. In addition, persons responsible for considering the purchase of Refunding Bonds by a governmental plan, non-electing church plan or non-U.S. plan should consult with their counsel regarding the applicability of any Similar Law to such an investment.

## **OTHER LEGAL MATTERS**

### **Legal Opinion**

The validity of each series of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to each series of the Bonds at the time of issuance substantially in the form set forth in Appendix C. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District.

### **Legality for Investment in California**

Under the provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the bank, are prudent

for the investment of funds of depositors, and, under provisions of the California Government Code, the Bonds are eligible securities for deposit of public moneys in the State.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of each series of the Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the “EMMA System”) certain annual financial information and operating data relating to the District (the “Annual Report”) by not later than 240 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2019-20 fiscal year (which is due no later than February 25, 2021) and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission.

The Board of Education of the District acts as the legislative body of the Val Verde Unified School District Community Facilities District No. 2014-1 (the “Community Facilities District”). In the past, the District has undertaken to provide continuing disclosure for the Community Facilities District’s bonds. In connection with its prior undertaking with regard to the Community Facilities District, the District, in the preceding five years, failed to timely file all of the information required to be included in the annual report for fiscal year 2018-19.

Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, has been engaged by the District as its dissemination agent for its prior continuing disclosure undertakings relating to the District’s outstanding general obligation bonds and certificates of participation as well as the continuing disclosure undertakings relating to the Bonds. Cooperative Strategies serves as dissemination agent for the continuing disclosure undertakings of the Community Facilities District.

### **Litigation**

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

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

## ESCROW VERIFICATION

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter (defined herein) relating to the computation of projected receipts of principal and interest on the Defeasance Securities, and the projected payments of principal, redemption premium, if any, and interest to retire the Refunded Bonds will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the District and the Underwriter (defined herein). The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

## MISCELLANEOUS

### Ratings

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

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

### Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Bonds. Fieldman, Rolapp & Associates, Inc., is acting as the District's municipal advisor (the "Municipal

Advisor”) with respect to the Bonds. Payment of the fees and expenses of the District’s Municipal Advisor is also contingent upon the sale and delivery of the Bonds.

### **Underwriting**

The Series 2020A Bonds are being purchased for reoffering to the public by Piper Sandler & Co. (the “Underwriter”) pursuant to the terms of a bond purchase agreement executed on \_\_\_\_\_, 2020 (the “2020A Purchase Agreement”), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Series 2020A Bonds at a price of \$\_\_\_\_\_ [(which represents the aggregate principal amount of the Series 2020A Bonds, [plus/less] [net] original issue [premium/discount] of \$\_\_\_\_\_, and less Underwriter’s discount in the amount of \$\_\_\_\_\_)]. The 2020A Purchase Agreement provides that the Underwriter will purchase all of the Series 2020A Bonds, subject to certain terms and conditions set forth in the 2020A Purchase Agreement.

The Series 2020E Bonds are being purchased for reoffering to the public by the Underwriter pursuant to the terms of a bond purchase agreement executed on \_\_\_\_\_, 2020 (the “2020E Purchase Agreement”), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Series 2020E Bonds at a price of \$\_\_\_\_\_ [(which represents the aggregate principal amount of the Series 2020E Bonds, [plus/less] [net] original issue [premium/discount] of \$\_\_\_\_\_, and less Underwriter’s discount in the amount of \$\_\_\_\_\_)]. The 2020E Purchase Agreement provides that the Underwriter will purchase all of the Series 2020A Bonds, subject to certain terms and conditions set forth in the 2020E Purchase Agreement.

The Refunding Bonds are being purchased for reoffering to the public by the Underwriter pursuant to the terms of a bond purchase agreement executed on \_\_\_\_\_, 2020 (the “Refunding Purchase Agreement”), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Refunding Bonds at a price of \$\_\_\_\_\_ (which represents the aggregate principal amount of the Refunding Bonds, [plus/less] [net] original issue [premium/discount] of \$\_\_\_\_\_, and less Underwriter’s discount in the amount of \$\_\_\_\_\_). The Refunding Purchase Agreement provides that the Underwriter will purchase all of the Refunding Bonds, subject to certain terms and conditions set forth in the Refunding Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices set forth on the inside front cover pages of this Official Statement. The public offering prices may be changed from time to time by the Underwriter.

Piper Sandler & Co., the Underwriter of the Bonds, has entered into a distribution agreement (“Distribution Agreement”) with Charles Schwab & Co., Inc. (“CS&Co”) for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

**ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to purchasers of the Bonds. Quotations from and summaries and explanations of the Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

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

The District has duly authorized the delivery of this Official Statement.

**VAL VERDE UNIFIED SCHOOL  
DISTRICT**

By: \_\_\_\_\_  
Superintendent

## **APPENDIX A**

### **INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET**

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

### **THE DISTRICT**

#### **Introduction**

The Val Verde Unified School District (the "District") is a public school district located in Riverside County in the State of California. The District services an area of approximately 67 square miles located in the County, including portions of the Cities of Moreno Valley and Perris and adjacent unincorporated areas of the County, and has a fiscal year 2019-20 enrollment of approximately 19,971 students. The District currently operates twelve elementary schools, four middle schools, three high schools, one continuation high school, one virtual academy, one opportunity school and one preschool. The District operates under the Riverside County Superintendent of Schools.

Excerpts from the District's proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget, which reflect the May revision of the fiscal year 2020-21 proposed State budget based on guidance from the County Office of Education and initial impacts of the Coronavirus Disease 2019 ("COVID-19") pandemic, are included in Appendix A. However, the District's proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget have not yet been adopted by the Board of Education; the Board of Education is expected to review and adopt such financials on June 16, 2020.

#### **Board of Education**

The District is governed by a five-member Board of Education (the "Board of Education"), each member of which is a voting member and elected by voters within their "area" of the District to serve alternating four-year terms. The members are elected in alternate slates of two and three, and elections are held every two years. Beginning with the November 2016 election, the Board of Education changed from at-large elections to by-trustee area elections. Each December the Board of Education elects a President, Vice President and Clerk to serve one-year terms. Current voting members of the Board of Education, together with their trustee area, office and the date their current term expires, are listed below

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Board of Education**

Name	Trustee Area	Office	Term Expires
Matthew Serafin	Area 2	President	December 2020
Marla Kirkland	Area 1	Vice President	December 2020
Marisol Roque	Area 4	Clerk	December 2022
Ty Liddell	Area 3	Member	December 2022
Julio Gonzales	Area 5	Member	December 2022

**Superintendent and Deputy Superintendent, Business Services**

The Superintendent of the District and Deputy Superintendent, Business Services are appointed by the Board of Education. The Superintendent reports directly to the Board of Education. The Deputy Superintendent, Business Services reports directly to the Superintendent. The Superintendent is responsible for management of the District’s day-to-day operations and supervises the work of other key District administrators. The current Superintendent, Michael R. McCormick, has served in this position since 2015. The Deputy Superintendent, Business Services is responsible for management of the District’s finances and business operations. Stacy Coleman has served as Deputy Superintendent, Business Services since February 2019.

**Michael R. McCormick, Superintendent.** Mr. McCormick began his career in public education as an elementary teacher in 1991. He came to Val Verde Unified School District in 1997 as a Middle School Assistant Principal. He has also served as a High School Assistant Principal, Middle School Principal, High School Principal and Assistant Superintendent, Education Services. Mr. McCormick was chosen to lead the District as their Superintendent in 2015 and continues in that capacity today. Mr. McCormick received his Bachelor of Arts from California State University, San Bernardino, his teaching credential from California Baptist University and his administrative credential from National University where he also received his Master of Science in Educational Administration. Mr. McCormick is also active on numerous boards as a leader in K-12 education and regularly provides testimony on assessment and accountability to the State Board of Education while also giving presentations statewide, nationally and internationally on effective strategies to create organizations focused on STEAM and the 4Cs: critical thinking, creativity, collaboration and communication.

**Stacy Coleman, Deputy Superintendent, Business Services.** Mr. Coleman began his career in public education in 1986. During his career he has served as a substitute teacher, confidential benefits and payroll technician, and Assistant Superintendent, Business Services for four school districts in three different counties in the State. Mr. Coleman began his current position as Deputy Superintendent, Business Services of the District in February 2019. Mr. Coleman is in his 30th year as a chief business officer in public education. Mr. Coleman received his Bachelor of Arts degree from Oregon State University and holds a Masters degree in Educational Management from the University of LaVerne.

**DISTRICT FINANCIAL MATTERS**

**State Funding of Education; State Budget Process**

**General.** As is true for all school districts in California, the District’s operating income consists primarily of two components: a State portion funded from the State’s general fund in accordance with the Local Control Funding Formula (the “Local Control Funding Formula” or “LCFF”) (see “–Allocation of State Funding to School Districts; Local Control Funding Formula”) and a local portion derived from the

District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see “–*Local Sources of Education Funding*”). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has estimated to receive approximately 75.94% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), estimated at approximately \$210.64 million in fiscal year 2019-20. The District has budgeted to receive approximately 70.28% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately \$193.20 million in fiscal year 2020-21. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see “–*Allocation of State Funding to School Districts; Local Control Funding Formula*” and “–*Attendance and LCFF*” and “–*Other District Revenues – Other State Revenues*” below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may affect the District's revenues and operations.

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

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

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2019-20 State budget on June 27, 2019.

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

earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

**Aggregate State Education Funding.** The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

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

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

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

The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California

official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

**2019-20 State Budget.** The Governor signed the fiscal year 2019-20 State Budget (the “2019-20 State Budget”) on June 27, 2019. In March 2020, following the outbreak of the COVID-19 pandemic, the Governor declared a state of emergency, and the legislature subsequently authorized an amendment to the 2019-20 State Budget providing for an appropriation of up to \$1 billion from the State’s general fund to be used for any purpose related to such emergency declaration. Since the 2019-20 State Budget preceded the COVID-19 pandemic, it did not take into account the significant adverse impacts it will have on the State’s financial condition beginning in fiscal year 2019-20. The 2020-21 May Revision (as defined herein) significantly revises the projections of revenues and expenditures in the 2019-20 State Budget. Further, the 2020-21 May Revision (as defined herein) proposes to defer \$1.9 billion of LCFF apportionments due in fiscal year 2019-20 to fiscal year 2020-21. For more information on the 2020-21 May Revision, see “ – *May Revision to the 2020-21 Proposed State Budget.*” Certain limited information from the 2019-20 State Budget relating to the funding of education is provided herein as a historical baseline solely for context and reference.

The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately \$143.8 billion in revenues, and \$91.9 billion in non-Proposition 98 expenditures and \$55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a \$1.4 billion reserve in the Special Fund for Economic Uncertainties (“SFEU”). To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a \$3.15 billion non-Proposition 98 general fund payment to the California State Teachers’ Retirement System (“CalSTRS”) and the California Public Employees’ Retirement System (“CalPERS”) Schools Pool. Of this amount, an estimated \$850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of \$103.4 billion (\$58.8 billion general fund and \$44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides \$1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion).

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

- **Special Education.** The 2019-20 State Budget includes \$645.3 million ongoing Proposition 98 general fund resources for special education, including \$152.6 million to provide for all Special Education Local Plan Areas with at least the statewide target rate for base special education funding, and \$492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.
- **After School Education and Safety Program.** The 2019-20 State Budget includes \$50 million ongoing Proposition 98 general fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.

- Longitudinal Data System. The 2019-20 State Budget includes \$10 million one-time non-Proposition 98 general fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.
- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes \$89.8 million one-time non-Proposition 98 general fund resources to provide up to 4,487 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. The 2019-20 State Budget also includes \$43.8 million one-time non-Proposition 98 general fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes \$13.8 million ongoing 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.
- Broadband Infrastructure. The 2019-20 State Budget includes \$7.5 million one-time non-Proposition 98 general fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.
- School Facilities Bond Funds. The 2019-20 State Budget assumes \$1.5 billion Proposition 51 bond funds, an increase of \$906 million over the prior year, to support school construction projects.
- Full-Day Kindergarten. The 2019-20 State Budget includes \$300 million one-time non-Proposition 98 general fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.
- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.
- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of \$36 million one-time Proposition 98 general fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of \$2 million one-time Proposition 98 general fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, the 2019-20 State Budget includes an increase of \$727,000 one-time Proposition 98 general fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

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

***Proposed 2020-21 State Budget.*** The Governor released his proposed State budget for fiscal year 2020-21 (the “Proposed 2020-21 State Budget”) on January 10, 2020. Since the Proposed 2020-21 State Budget preceded the COVID-19 pandemic, it did not take into account the significant adverse impacts it will have on the State’s financial condition in fiscal year 2020-21 and future fiscal years. The 2020-21 May Revision (as defined herein) significantly revises the projections of revenues and expenditures and cuts substantial educational funding and programs from the Proposed 2020-21 State Budget. For more information on the 2020-21 May Revision, see “- *May Revision to the 2020-21 Proposed State Budget.*” Certain limited information from the Proposed 2020-21 State Budget relating to the funding of education is provided herein solely for context and reference.

The Proposed 2020-21 State Budget sets forth a balanced budget for fiscal year 2020-21. However, the Governor cautions that although California’s economy is strong, economic inequality persists throughout the State and continued growth is uncertain due to the instability in global economic markets and the nation’s political climate. The Proposed 2020-21 State Budget estimates that total resources available in fiscal year 2019-20 totaled approximately \$155.0 billion (including a prior year balance of approximately \$8.5 billion) and total expenditures in fiscal year 2019-20 totaled approximately \$149.7 billion. The Proposed 2020-21 State Budget projects total resources available for fiscal year 2020-21 of approximately \$156.9 billion, inclusive of revenues and transfers of approximately \$151.6 billion and a prior year balance of \$5.2 billion. The Proposed 2020-21 State Budget projects total expenditures of \$153.1 billion, inclusive of non-Proposition 98 expenditures of approximately \$95.5 billion and Proposition 98 expenditures of approximately \$57.6 billion. The Proposed 2020-21 State Budget proposes to allocate approximately \$2.1 billion of the general fund’s projected fund balance to the Reserve for Liquidation of Encumbrances and \$1.6 billion of such fund balance to SFEU. In addition, the Proposed 2020-21 State Budget estimates the Rainy Day Fund will have a fund balance of approximately \$18.0 billion.

Certain budgeted adjustments for K-12 education set forth in the Proposed 2020-21 State Budget include the following:

- Local Control Funding Formula. The Proposed 2020-21 State Budget includes an increase of \$1.2 billion in Proposition 98 general fund resources for the LCFF.
- Proposition 98 Rainy Day Fund (also known as the Public School System Stabilization Account). The Proposed 2020-21 State Budget projects that a \$524.2 million deposit into the Proposition 98 Rainy Day Fund will be required in fiscal year 2019-20, representing an increase of \$147.7 million of the deposit projected in the 2019-20 State Budget, and that a \$37.6 million withdrawal from the Proposition 98 Rainy Day Fund will be required in fiscal year 2020-21.
- Educator Workforce Investment Grants. The Proposed 2020-21 State Budget includes an increase of \$350 million of one-time Proposition 98 general fund resources to augment the funding provided in the 2019-20 State Budget for the Educator Workforce Investment Grants, which support competitive grants for professional learning opportunities for teachers and paraprofessionals across the State.
- California Collaborative for Educational Excellence. The Proposed 2020-21 State Budget includes an increase of \$18 million of one-time Proposition 98 general fund resources for the California Collaborative for Educational Excellence to bolster awareness of available services and supports for all local educational agencies to strengthen the capacity of local educational agencies to improve student outcomes in State priority areas.

- Workforce Development Grant Program. The Proposed 2020-21 State Budget includes an increase of \$193 million of one-time Proposition 98 general fund resources for the Workforce Development Grant Program to address workforce shortages in high-need subjects and areas.
- Teacher Residency Program. The Proposed 2020-21 State Budget includes an increase of \$175 million of one-time Proposition 98 general fund resources to expand the Teacher Residency Program, which supports 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. The Proposed 2020-21 State Budget includes an increase of \$100 million of one-time Proposition 98 general fund resources for the California Teacher Credential Award Program 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. The Proposed 2020-21 State Budget includes an increase of \$64.1 million of one-time Proposition 98 general fund resources to expand the California Classified School Employees Credentialing Program, which provides grants to K-12 local educational agencies to recruit non-certificated school employees to become certificated classroom teachers.
- Special Education. The Proposed 2020-21 State Budget proposes a three-phase, multi-year process to improve special education finance, services and student outcomes. The Proposed 2020-21 State Budget proposes a new special education base formula that uses a three-year rolling average of local educational agency average daily attendance and includes a 15% increase in the Proposition 98 general fund contribution to the base formula funding over the amount provided in the 2019-20 State Budget. In addition to the new base rate funding formula, the Proposed 2020-21 Budget includes (i) an additional \$250 million of Proposition 98 general fund resources on an ongoing basis based on the number of children ages 3 to 5 years with exceptional needs served; (ii) an increase of \$500,000 of one-time Proposition 98 general fund resources for a study of the current Special Education Local Plan Area governance and accountability structure; (iii) an increase of \$600,000 of one-time Proposition 98 general fund resources for two workgroups to study improved accountability for special education service delivery and student outcomes; and (iv) an increase of \$4 million of one-time Proposition 98 general fund resources for dyslexia research, training, and a statewide conference.
- Community Schools. The Proposed 2020-21 State Budget includes an increase of \$300 million of one-time Proposition 98 general fund resources to establish community school grants for local educational agencies supporting innovative community school models.
- Opportunity Grants. The Proposed 2020-21 State Budget includes an increase of \$300 million of one-time Proposition 98 general fund resources to establish opportunity grants for the State's lowest performing schools and school districts, and to expand the capacity of the California Collaborative for Educational Excellence in its role within the statewide system of support.
- Computer Science. The Proposed 2020-21 State Budget includes (i) an increase of \$15 million of one-time Proposition 98 general fund resources for grants to local educational agencies to support the preparation of approximately 10,000 K-12 teachers to earn a supplementary authorization on their credential to teach computer science; (ii) an increase of \$2.5 million of one-time Proposition 98 general fund resources for a county office of education within the statewide system of support to identify, compile, and share computer science resources for professional development,

curriculum, and best practices; and (iii) an increase of \$1.3 million of one-time Proposition 98 general fund resources to develop a new UC Subject Matter Project in computer science, and \$340,000 of non-Proposition 98 general fund resources for one cohort of approximately 1,200 educators to participate in the new project.

- School Nutrition. The Proposed 2020-21 State Budget includes (i) an increase of \$60 million of Proposition 98 general fund resources for school nutrition; (ii) an increase of \$10 million of Proposition 98 general fund resources to provide training for school food service workers to promote healthier and more nutritious meals; and (iii) an increase of \$10 million of non-Proposition 98 general fund resources and \$1.5 million annually thereafter for the California Department of Food and Agriculture to establish a Farm to School Grant Program to support California farmers and expand healthy food access by providing grants to schools.
- School District Average Daily Attendance. The Proposed 2020-21 State Budget includes a decrease of \$268.5 million of Proposition 98 general fund resources in fiscal year 2019-20 for school districts as a result of a decrease in projected average daily attendance from the 2019-20 State Budget, and a decrease of \$175.1 million of Proposition 98 general fund resources in fiscal year 2020-21 for school districts as a result of further projected decline in average daily attendance for fiscal year 2020-21.
- Local Property Tax Adjustments. The Proposed 2020-21 State Budget includes an increase of \$7.3 million of Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2019-20 as a result of decreased offsetting property tax revenues, and a decrease of \$1.1 billion of Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2020-21 as a result of increased offsetting property taxes.
- Cost-of-Living Adjustments. The Proposed 2020-21 State Budget includes an increase of \$122.4 million of Proposition 98 general fund resources to reflect a 2.29% cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, the Adults in Correctional Facilities Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

The complete Proposed 2020-21 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***May Revision to the 2020-21 Proposed State Budget.*** The Governor released the May Revision to the Proposed 2020-21 State Budget (the “2020-21 May Revision”) on May 14, 2020, which reflects the initial and profound effects of the COVID-19 pandemic on the State’s economy. The 2020-21 May Revision indicates that, although the State began 2020 with a solid fiscal foundation as reflected in the Proposed 2020-21 State Budget, the COVID-19 pandemic and resulting recession have changed the fiscal landscape dramatically. Job losses and business closures and interruptions are sharply reducing State revenues. Compared to the Proposed 2020-21 State Budget, the 2020-21 May Revision projects that State general fund revenues will decline by over \$41 billion. Such a decrease in State general fund revenues, combined with the increased costs in health and human services programs and other added costs to address COVID-19, leads to a projected budget deficit of approximately \$54 billion before the changes proposed in the 2020-21 May Revision.

Consistent with the State's constitutional obligation to enact a balanced budget and the prohibition against issuing long-term bonds to finance deficits, the 2020-21 May Revision proposes the following actions to achieve a balanced budget for fiscal year 2020-21:

- Cancel \$6.1 billion in program expansions and spending increases, including by canceling or reducing a number of one-time expenditures included in the 2019-20 State Budget. It also includes redirecting \$2.4 billion in extraordinary payments to CalPERS to temporarily offset the State's obligations to CalPERS in fiscal years 2020-21 and 2021-22.
- Draw down \$16.2 billion in the Rainy Day Fund over three years, and allocate the Safety Net Reserve to offset increased costs in health and human services programs over the next two years. The 2020-21 May Revision reflects the withdrawal of \$8.3 billion, including \$7.8 billion from the Rainy Day Fund and \$450 million from the Safety Net Reserve in 2020-21.
- Borrow and transfer \$4.1 billion from special funds.
- Temporarily suspend net operating losses and temporarily limit to \$5 million the amount of credits a taxpayer can use in any given tax year. These short-term limitations will generate new revenue of \$4.4 billion in fiscal year 2020-21, \$3.3 billion in fiscal year 2021-22, and \$1.5 billion in fiscal year 2022-23 to increase funding for schools and community colleges and maintain other core services.
- Reflect the nationwide request of \$1 trillion in flexible federal funds to support all 50 states and local governments, and identify reductions to base programs and employee compensation that will be necessary if sufficient federal funding does not materialize.

Although the 2020-21 May Revision proposes a balanced budget for fiscal year 2020-21, a significant out-year deficit would remain, increasing to over \$16 billion by fiscal year 2023-24. Without the actions described above to achieve a balanced budget for fiscal year 2020-21, the out-year structural deficit would be approximately \$45 billion annually. The 2020-21 May Revision estimates that total resources available in fiscal year 2019-20 will be approximately \$148.1 billion (including revenues and transfers of approximately \$136.8 billion and a prior year balance of \$11.3 billion) and total expenditures in fiscal year 2019-20 will be approximately \$146.5 billion. The 2020-21 May Revision projects total resources available for fiscal year 2020-21 of approximately \$139.0 billion, inclusive of revenues and transfers of approximately \$137.4 billion and a prior year balance of approximately \$1.6 billion. The 2020-21 May Revision projects total expenditures of approximately \$133.9 billion, inclusive of non-Proposition 98 expenditures of \$89.0 billion and Proposition 98 expenditures of \$44.9 billion. The 2020-21 May Revision proposes to allocate approximately \$3.2 billion of the State general fund's projected fund balance to the State's reserve for liquidation of encumbrances and approximately \$2.0 billion of such fund balance to the SFEU. In addition, the 2020-21 May Revision estimates that the Rainy Day Fund will have a fund balance of approximately \$8.4 billion.

The 2020-21 May Revision includes total funding of \$99.7 billion for all K-12 education programs, including \$47.7 billion from the general fund and \$52.0 billion from other funds. The 2020-21 May Revision includes certain cuts and adjustments to K-12 education programs and funding (described in more detail below) that may be rescinded, in whole or in part, if the State were to receive additional federal assistance, such as through the passage of the Health and Economic Recovery Omnibus Emergency Solutions Act.

Certain adjustments and budgetary proposals for K-12 education set forth in the 2020-21 May Revision include the following:

- Proposition 98 Minimum Guarantee. The 2020-21 May Revision projects that due to the COVID-19 pandemic and resulting recession, Proposition 98 funding will decline by \$19 billion compared to the Proposed 2020-21 State Budget. Such decline in funding is approximately 23% of the 2019-20 State Budget Proposition 98 funding level. Due to declining A.D.A. and declining per capita income numbers, Proposition 98 funding is projected to stay at a depressed level for the entire forecast period in the 2020-21 May Revision. The 2020-21 May Revision proposes to provide supplemental appropriations above the constitutionally required funding level beginning in fiscal year 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5% of the general fund revenues per year, up to a cumulative total of \$13 billion.
- Proposition 98 Rainy Day Fund (also known as the Public School System Stabilization Account). The 2020-21 May Revision also reflects the withdrawal of all of the funding in the Public School System Stabilization Account. The 2020-21 May Revision projects that no additional deposits will be required and the entire amount is available to offset the decline in the Proposition 98 minimum guarantee.
- Temporary Revenue Increases. The 2020-21 May Revision proposes the temporary three-year suspension of net operating losses and a limitation on business incentive tax credits to offset no more than \$5 million of tax liability per year. These measures, along with other more minor tax changes, will generate \$4.5 billion in general fund revenues and approximately \$1.8 billion in benefit to the Proposition 98 minimum guarantee.
- Learning Loss Mitigation. The 2020-21 May Revision proposes a one-time \$4.4 billion investment (comprised of \$4 billion from the federal Coronavirus Relief Fund and \$355 million from the federal Governor's Emergency Education Relief Fund), to local educational agencies to address learning loss related to school closures caused by the COVID-19 pandemic.
- Revising CalPERS/CalSTRS Contributions. The 2019-20 State Budget included \$850 million to buy down local educational agency employer contribution rates for CalSTRS and CalPERS in fiscal years 2019-20 and 2020-21, as well as \$2.3 billion towards the employer long-term unfunded liability. The 2020-21 May Revision proposes redirecting \$2.3 billion paid to CalSTRS and CalPERS towards long-term unfunded liabilities to further reduce employer contribution rates in fiscal years 2020-21 and 2021-22. This reallocation will reduce the CalSTRS employer rate from 18.41% to approximately 16.15% in fiscal year 2020-21 and from 18.20% to 16.02% in fiscal year 2021-22. The CalPERS Schools Pool employer contribution rate will be reduced from 22.67% to 20.7% in fiscal year 2020-21 and from 25.0% to 22.84% in fiscal year 2021-22.
- Elementary and Secondary School Emergency Relief Funds. The State received \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds, 90% of which will be allocated to local educational agencies. The remaining 10% is available for state-level activities.
- Aligning K-12 Appropriations with Available Resources. The 2020-21 May Revision indicates that the decline in Proposition 98 funding creates a shortfall of \$15.1 billion (\$14.8 billion general fund) for K-12 schools over fiscal years 2018-19, 2019-20, and 2020-21. To address this gap, the 2020-21 May Revision withdraws several proposals from the Proposed 2020-21 State Budget, including the Educator Workforce Investment Grants, Opportunity Grants, Community Schools Grants, and Workforce Development Grants.
- Local Control Funding Formula. The 2020-21 May Revision proposes a 10% reduction (\$6.5 billion) to the Local Control Funding Formula, including the suspension of the statutory cost-of-living adjustment of 2.31%. The 2020-21 May Revision also proposes to defer \$1.9 billion of Local

Control Funding Formula apportionments to fiscal year 2020-21. An additional \$3.4 billion is proposed to be added to the fiscal year 2019-20 deferral in fiscal year 2020-21, for a total of \$5.3 billion in Local Control Funding Formula deferrals scheduled for payment in fiscal year 2021-22.

- Special Education. The 2020-21 May Revision sustains the proposal to increase special education base rates from the Proposed 2020-21 State Budget, but updates the amount to \$645 per pupil (reflecting the suspension of the 2.31% cost-of-living adjustment).
- K-12 Categorical Programs. The 2020-21 May Revision proposes, absent receipt of additional federal funds, to reduce K-12 categorical program spending by \$352.9 million.
- Local Property Tax Adjustments. The 2020-21 May Revision proposes an increase of \$84.5 million in Proposition 98 general fund resources in fiscal year 2019-20 and \$727 million in Proposition 98 general fund resources in fiscal year 2020-21 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in each year.
- Full-Day Kindergarten Facilities. The 2020-21 May Revision proposes a decrease of \$300 million in one-time non-Proposition 98 general fund resources for construction of new, or retrofit of existing, facilities for full-day kindergarten programs.
- Categorical Program Growth. The 2020-21 May Revision proposes to decrease the Proposition 98 general fund by \$10.9 million for selected categorical programs, based on updated estimates of A.D.A.

The complete 2020-21 May Revision is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Changes in State Budget.*** The final fiscal year 2020-21 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the 2020-21 May Revision. As indicated above, the 2020-21 May Revision differs dramatically from the Proposed 2020-21 State Budget due to the effects of the COVID-19 pandemic on the State. The 2020-21 May Revision reflects the initial and profound impacts of the COVID-19 pandemic and resulting recession on the State's revenues and expenditures, but such impacts are far from settled and continue to evolve. Thus, the final fiscal year 2020-21 State budget may be affected by national and State economic conditions and other factors which the District cannot predict, including the continued and evolving effects of the COVID-19 pandemic on State revenues that may in turn impact the educational funding that the District receives from the State. See “– State Funding of Education; State Budget Process – Infectious Disease Outbreak.” Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2020-21 State budget from the 2020-21 May Revision. The District cannot predict the impact that the final fiscal year 2020-21 State budget, or subsequent budgets, will have on its finances and operations.

***Future Budgets and Budgetary Actions.*** The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2019-20 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year

and could have a material adverse financial impact on the District. As the Bonds are payable from *ad valorem* property taxes, the State budget is not expected to have an impact on the payment of the Bonds.

***State and School District Reserves.*** On April 5, 2020, the LAO published an Update on State and School District Reserves, addressing the current levels of state and local reserves in light of the COVID-19 outbreak. The LAO indicates that State revenues will be lower than estimated in the Proposed 2020-21 State Budget, and that economic and budget conditions continue to rapidly evolve. The LAO indicates that the State currently has \$17.5 billion in reserves, including \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve. The LAO explains that the balance of the SFEU is nearly zero because the State recently transferred \$1.3 billion from the SFEU to its disaster fund to address the effects of COVID-19. The LAO also notes, however, that the State will likely be reimbursed by the federal government for most of the funds transferred from the SFEU.

The LAO also addressed the accessibility of funds in the BSA, recounting that the State can make a withdrawal from the BSA in the case of a budget emergency that is declared by the Governor and approved by both houses of the State Legislature. A budget emergency may be declared if either (i) the estimated resources in the current or upcoming fiscal year are insufficient to maintain spending at the highest level of the last three enacted budgets; or (ii) it is made in response to a natural or man-made emergency. The LAO notes that if the State faces a budget deficit in either fiscal year 2019-20 or 2020-21, the conditions for the declaration of a budget emergency will likely exist. If a budget emergency exists and the State elects to make a withdrawal from the BSA, the State may withdraw the lesser of (i) the amount needed to maintain general fund spending at the highest level of the past three enacted budget acts; and (ii) fifty percent of the balance of the BSA.

The LAO also analyzed two sources of reserves that school districts in the State may use to mitigate some of the reduction in state revenue that is likely to occur as a result of the COVID-19 outbreak: the State-level reserve for schools and local school district reserves. The LAO notes that the State made its first deposit into the State-level reserve for schools in connection with the 2019-20 State Budget. That deposit was only approximately \$377 million, representing less than one percent of State spending on schools in fiscal year 2019-20. School districts, however, may also hold reserves in their local operating accounts, and although there is significant variation in the level of reserves held by the various school districts, the LAO indicates that school district reserves average seventeen percent of school funding statewide. According to the LAO, the median school district holds reserves equal to approximately twenty-two percent of its expenditures, although about twenty-five percent of school districts hold reserves that account for less than fourteen percent of their expenditures. As of January 2020, the District currently holds approximately \$2.43 million in unrestricted and non-earmarked reserves.

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

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from

cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment has been to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

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

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

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

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2019-20, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,818 per A.D.A. for grades

4 through 6; (c) a Target Base Grant for each LEA equivalent to \$8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes a costs-of-living adjustment of 3.26% authorized by the 2019-20 State Budget. (The 2020-21 May Revision proposes to suspend the statutory cost-of-living adjustment in fiscal year 2020-21. For more information, see “ – *May Revision to the 2020-21 Proposed State Budget.*”)

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

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

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

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

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

struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency’s LCAP.

**Attendance and LCFF.** The following table sets forth the District’s actual and projected A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”)), and targeted Base Grant per unit of A.D.A. for fiscal years 2015-16 through 2019-20, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education but exclude adult education and preschool attendance.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Average Daily Attendance, Enrollment and Targeted Base Grant  
Fiscal Years 2015-16 through 2019-20**

Fiscal Year		A.D.A./Base Grant				Enrollment <sup>(9)</sup>		
		K-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2015-16	A.D.A. <sup>(1)</sup> :	5,687.30	4,575.92	2,996.79	5,783.65	19,043.66	19,862	83.23%
	Targeted Base Grant <sup>(2)(3)</sup> :	\$7,083	\$7,189	\$7,403	\$8,578	--	--	--
2016-17	A.D.A. <sup>(1)</sup> :	5,588.43	4,627.69	2,991.48	6,052.86	19,260.46	19,953	83.07%
	Targeted Base Grant <sup>(2)(4)</sup> :	\$7,116	\$7,223	\$7,438	\$8,801	--	--	--
2017-18	A.D.A. <sup>(1)</sup> :	5,648.94	4,523.07	3,048.09	6,236.43	19,456.53	20,244	83.36%
	Targeted Base Grant <sup>(2)(5)</sup> :	\$7,941	\$7,301	\$7,518	\$8,939	--	--	--
2018-19	A.D.A. <sup>(1)</sup> :	5,649.28	4,523.88	3,050.83	6,243.44	19,467.43	20,141	83.66%
	Targeted Base Grant <sup>(2)(6)</sup> :	\$8,235	\$7,571	\$7,796	\$9,269	--	--	--
2019-20 <sup>(7)</sup>	A.D.A. <sup>(7)</sup> :	5,471.33	4,155.29	3,163.08	6,369.70	19,159.40	19,971	83.31%
	Targeted Base Grant <sup>(2)(8)</sup> :	\$8,503	\$7,818	\$8,050	\$9,572	--	--	--

<sup>(1)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a “material decrease” in attendance or attendance at Saturday school.  
<sup>(2)</sup> Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.  
<sup>(3)</sup> Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.  
<sup>(4)</sup> Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.  
<sup>(5)</sup> Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.  
<sup>(6)</sup> Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.  
<sup>(7)</sup> Figures are estimates.  
<sup>(8)</sup> Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.  
<sup>(9)</sup> Reflects enrollment as of October report submitted to the California Longitudinal Pupil Achievement Data System. A school district’s percentage of unduplicated EL/LI Students is based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Val Verde Unified School District.

The District received approximately \$213.70 million in aggregate revenues reported under LCFF sources in fiscal year 2018-19 and has estimated to receive approximately \$219.94 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 79.29% of its general fund revenues in

fiscal year 2019-20). Such amount includes supplemental grants and concentration grants, estimated to be approximately \$27.90 million and \$23.80 million, respectively, in fiscal year 2019-20. The District has budgeted to receive approximately \$200.09 million in aggregate revenues under the LCFE in fiscal year 2020-21 (or approximately 72.79% of its general fund revenues in fiscal year 2020-21). Such amount includes supplemental grants and concentration grants budgeted to be approximately \$25.40 million and \$21.70, million, respectively, in fiscal year 2020-21.

***Infectious Disease Outbreak.*** In general, the outbreak of a highly contagious disease or epidemic disease could harm the District's financial results or result in a temporary shutdown of the District's facilities. As discussed above, school districts in California are funded based on the LCFE, which allocates a base grant per unit of average daily attendance with additional supplemental grants based on certain factors. See "*Allocation of State Funding to School District; Local Control Funding Formula.*" Thus, a temporary shutdown of a school or an entire school district would reduce the average daily attendance and could impact the funding a school district receives unless the State legislature or California Department of Education takes action to exclude such days from the calculations for funding purposes. Further, any impact on the State's tax and other revenue receipts as a result of a highly contagious or epidemic disease may in turn impact other educational funding that the District receives from the State. See "*Changes in State Budget.*" In addition, the District may incur increased operational costs to clean, sanitize and maintain its facilities either before or after an outbreak of an infectious disease.

As a result of the outbreak of COVID-19, the District closed its schools effective March 16, 2020 for the remainder of the school year. In response to the COVID-19 pandemic, the District is currently incurring increased costs with respect to providing meals to students. However, such costs are expected to be offset by State and federal reimbursements in addition to reductions in other District expenses due to remote learning and operations. Thus, the District's actual results for fiscal year 2019-20 are not expected to vary significantly from the District's fiscal year 2019-20 estimated actuals.

On March 17, 2020, the Governor signed Senate Bill 117 ("SB 117") as urgency legislation effective immediately. For purposes of school district funding for fiscal year 2019-20, SB 117 limits the average daily attendance reported to the California Department of Education to include the full school months from July 1, 2019, to February 29, 2020. This condensed ADA period applies to school districts that comply with Executive Order N-26-20, which provides that school districts that initiate a school closure to address COVID-19 will continue to receive State funding to support certain enumerated school functions during the period of closure. SB 117 further states the intent of the State Legislature that a school district's employees and contractors are paid during the period of a school closure due to COVID-19. SB 117 also waives instructional time penalties that would otherwise accrue, as long as the school district superintendent, county superintendent or charter school administrator certify that the closure due to COVID-19 caused the school district to fall below applicable instructional time requirements. SB 117 also includes \$100 million in additional funding to school districts for certain costs incurred as a result of COVID-19. The District expects to receive approximately \$336,665 from such additional State funding. Further, to mitigate the economic effects of the COVID-19 outbreak, the State may be able to access certain reserves. See "*State and School District Reserves.*"

On March 27, 2020, the U.S. House of Representatives approved and President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (the "Cares Act"). The Cares Act provides \$30 billion to education, specifically \$3 billion allocated to state governors to be used at their discretion to address the emergency, \$13.5 billion for K-12 education, and \$14.25 billion for postsecondary institutions. School districts will be able to use their share of the \$13.5 billion K-12 education allocation under the Cares Act, which will be based on the proportion of Title I funding received for the most recent fiscal year, for purposes authorized by federal law and other specified uses. The District expects to receive approximately \$4.87 million from such additional federal funding.

On March 22, 2020, President Trump approved the Major Disaster Declaration for the State of California's COVID-19 pandemic, authorizing federal emergency aid related to COVID-19. Local educational agencies may submit a request for public assistance through the California Office of Emergency Services for reimbursement of certain costs incurred as a result of COVID-19. The District submitted a request for public assistance, but it cannot predict the amount of federal emergency aid it will receive, if any.

While SB 117, the Cares Act, and the federal emergency aid will provide some immediate relief to school districts, including the District, the short-term and long-term impacts of the COVID-19 outbreak are unknown as the situation is rapidly evolving. The District cannot predict whether the State will access its reserves and whether any of such funds will be provided to school districts, including the District. The District also cannot predict whether similar legislation would be enacted in the event the outbreak of COVID-19 continues into fiscal year 2020-21 or beyond or a similar or other outbreak of a highly contagious disease or epidemic disease were to occur in the future.

### **Local Sources of Education Funding**

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

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

Local property tax revenues are estimated to account for approximately 16.03% of the District's aggregate revenues reported under LCFF sources and are estimated to be approximately \$35.26 million, or 12.71% of total general fund revenues in fiscal year 2019-20. Local property tax revenues are budgeted to account for approximately 17.62% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately \$35.26 million, or 12.83% of total general fund revenues in fiscal year 2020-21.

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

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

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

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

In a community funded district, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it a LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

### **Other District Revenues**

***Federal Revenues.*** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 5.00% (or approximately \$13.86 million) of the District's general fund estimated revenues for fiscal year 2019-20, and approximately 9.73% (or approximately \$26.74 million) of the District's general fund budgeted revenues for fiscal year 2020-21.

***Other State Revenues.*** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 9.36% (or approximately \$25.96 million) of the District's general fund estimated revenues for fiscal year 2019-20, and approximately 10.32% (or approximately \$28.36 million) of the Districts' general budgeted revenues for fiscal year 2020-21.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is estimated at approximately \$4.26 million for fiscal year 2019-20 and budgeted at approximately \$4.14 million for fiscal year 2020-21.

***Other Local Revenues.*** In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 6.35% (or approximately \$17.61 million) of the District's general fund estimated revenues for fiscal year 2019-20 and approximately 7.16% (or approximately \$19.68 million) of the District's general fund budgeted revenues for fiscal year 2020-21.

## **Charter Schools**

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

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

Currently, there are no charter schools operating within the District. However, certain students residing within the District from time to time elect to attend charter schools operating outside of the District. For fiscal year 2019-20, the District estimates that there are approximately 12 students residing within the District that are attending charter schools operating outside of the District. The District can make no representation as to the impact these or other charter school developments may have on the District’s A.D.A. or finances in future years.

## **Significant Accounting Policies and Audited Financial Reports**

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education’s California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District’s audited financial statements for the fiscal year ended June 30, 2019, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District’s prior independent auditor, Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants (“VTD”), Pleasanton, California, for fiscal years 2014-15 through 2017-18, and financial statements prepared by the District’s current independent auditor, Eide Bailly LLP (“Eide Bailly”), San Ramon, California, for fiscal year 2018-19. On July 22, 2019, VTD joined Eide Bailly.

VTD and Eide Bailly have not been requested to consent to the use or to the inclusion of their reports in this Official Statement, and they have not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2014-15 through 2018-19.

**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2014-15 through 2018-19**

	Fiscal Year 2014-15 Actuals	Fiscal Year 2015-16 Actuals	Fiscal Year 2016-17 Actuals	Fiscal Year 2017-18 Actuals	Fiscal Year 2018-19 Actuals
<b>REVENUES</b>					
Local Control Funding Formula	\$146,448,573	\$173,180,128	\$188,990,687	\$197,195,636	\$213,708,425
Federal sources	10,735,085	11,989,004	12,270,812	13,389,479	13,978,519
Other State sources	12,650,693	25,098,953	20,435,904	20,504,119	32,018,679
Other local sources	25,657,856	26,226,733	28,028,120	30,943,569	32,596,267
<b>Total Revenues</b>	<u>195,492,207</u>	<u>236,494,818</u>	<u>249,725,523</u>	<u>262,032,803</u>	<u>292,301,890</u>
<b>EXPENDITURES</b>					
Current:					
Instruction	115,798,043	131,680,141	140,636,292	146,257,569	164,537,141
Instruction-related services:					
Supervision of instruction	7,620,192	8,397,834	10,214,484	11,713,120	14,465,092
Instructional library, media and technology	1,569,825	1,737,261	2,511,556	2,679,506	2,253,064
School site administration	12,533,967	13,182,355	14,115,250	14,515,640	15,746,102
Pupil services:					
Home-to-school transportation	2,158,304	2,063,256	2,502,045	2,569,086	2,654,393
Food services	-	6,163	94	-	194,095
All other pupil services	13,501,842	14,664,163	16,947,220	17,973,519	20,688,852
Administration:					
Data processing	2,172,637	3,341,161	3,082,027	3,536,476	4,518,893
All other administration	7,453,095	8,052,011	9,936,796	9,811,595	13,366,445
Plant services	19,693,297	21,588,982	23,967,308	24,223,265	26,021,590
Ancillary services	1,327,788	1,877,887	2,069,034	1,996,317	2,609,664
Other Outgo	391,603	226,787	190,515	196,289	407,055
Facility acquisition and construction	1,411,098	5,687,929	7,109,997	6,758,057	10,909,351
Debt service:					
Principal	70,636	16,718	18,451	20,362	22,472
Interest and other	33,384	9,220	7,487	5,574	3,466
<b>Total Expenditures</b>	<u>185,735,711</u>	<u>212,531,868</u>	<u>233,308,556</u>	<u>242,256,375</u>	<u>276,397,675</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>9,756,496</u>	<u>23,962,950</u>	<u>16,416,967</u>	<u>19,776,428</u>	<u>15,904,215</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	12,695	-
Other sources	101,964	-	-	-	-
Transfers out <sup>(1)</sup>	(2,419,497)	(4,821,793)	(5,815,715)	(5,613,392)	(5,253,942)
<b>Total Other Financing Sources (Uses)</b>	<u>(2,317,533)</u>	<u>(4,821,793)</u>	<u>(5,815,715)</u>	<u>(5,600,697)</u>	<u>(5,253,942)</u>
<b>NET CHANGE IN FUND BALANCE</b>	7,438,963	19,141,157	10,602,252	14,175,731	10,650,273
<b>Fund Balance, July 1</b>	<u>25,233,715</u>	<u>32,672,678</u>	<u>51,813,835</u>	<u>62,415,087</u>	<u>76,590,818</u>
<b>Fund Balance, June 30<sup>(2)</sup></b>	<u>\$32,672,678</u>	<u>\$51,813,835</u>	<u>\$62,415,087</u>	<u>\$76,590,818</u>	<u>\$87,241,091</u>

<sup>(1)</sup> Transfers out are for debt service payments on the District's outstanding certificates of participation. See "District Debt Structure – *Certificates of Participation*" for more information.

Source: Val Verde Unified School District Audited Financial Reports for fiscal years 2014-15 through 2018-19.

The following table sets forth the general fund balance sheet of the District for fiscal years 2014-15 through 2018-19.

**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2014-15 through 2018-19**

	Fiscal Year 2014-15 Actuals	Fiscal Year 2015-16 Actuals	Fiscal Year 2016-17 Actuals	Fiscal Year 2017-18 Actuals	Fiscal Year 2018-19 Actuals
<b>ASSETS</b>					
Deposits and investments	\$32,680,463	\$56,170,487	\$63,917,443	\$78,278,907	\$88,652,801
Receivables	8,004,068	7,367,763	7,318,621	6,610,430	11,035,281
Due from other funds	1,942,838	2,107,216	738,507	2,641,911	1,766,088
Prepaid expenditures	-	2,980	-	-	-
Stores inventories	73,279	47,257	43,864	56,838	60,360
<b>Total Assets</b>	<b>\$42,700,648</b>	<b>\$65,695,703</b>	<b>\$72,018,435</b>	<b>\$87,588,086</b>	<b>\$101,514,530</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$8,045,379	\$12,779,484	\$7,655,455	\$9,166,608	\$11,906,932
Due to other funds	1,941,394	1,097,170	884,151	970,382	2,062,992
Unearned revenue	41,197	5,214	1,063,742	860,278	303,515
<b>Total Liabilities</b>	<b>10,027,970</b>	<b>13,881,868</b>	<b>9,603,348</b>	<b>10,997,268</b>	<b>14,273,439</b>
<b>FUND BALANCES:</b>					
Nonspendable	98,729	75,237	68,864	81,838	85,360
Restricted	5,698,449	8,919,855	8,935,193	10,194,155	7,923,087
Committed	-	6,270,531	3,908,623	-	-
Assigned	-	5,707,567	8,085,116	-	2,529,847
Unassigned	26,875,500	30,840,645	41,417,291	66,314,825	76,702,797
<b>Total Fund Balances</b>	<b>32,672,678</b>	<b>51,813,835</b>	<b>62,415,087</b>	<b>76,590,818</b>	<b>87,241,091</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$42,700,648</b>	<b>\$65,695,703</b>	<b>\$72,018,435</b>	<b>\$87,588,086</b>	<b>\$101,514,530</b>

Source: Val Verde Unified School District Audited Financial Reports for fiscal years 2014-15 through 2018-19.

**District Budget Process and County Review**

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the

event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

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

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

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 et seq.), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent,

as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the State Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

Any school district that receives a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the school district, unless the county superintendent determines that the school district's repayment of indebtedness is probable. In the past five years, the District has not received a negative or qualified certification for an interim financial report.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* property taxes levied to pay debt service on district general obligation bonds.

A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

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

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2017-18 through 2020-21, unaudited actuals for fiscal years 2017-18 through 2018-19, and estimated actuals for fiscal year 2019-20.

Excerpts from the District's proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget, are included in the table below. However, the District's proposed fiscal year 2019-20 estimated actuals and proposed fiscal year 2020-21 budget have not yet been adopted by the Board of Education; the Board of Education is expected to review and adopt such financials on June 16, 2020.

**VAL VERDE UNIFIED SCHOOL DISTRICT**  
**(Riverside County, California)**  
**General Fund Budgets for Fiscal Years 2017-18 through 2020-21,**  
**Unaudited Actuals for Fiscal Years 2017-18 and 2018-19**  
**and Estimated Actuals for Fiscal Year 2019-20<sup>(1)</sup>**

	2017-18 Original Budget	2017-18 Unaudited Actuals	2018-19 Original Budget	2018-19 Unaudited Actuals	2019-20 Original Budget	2019-20 Estimated Actuals <sup>(2)</sup>	2020-21 Original Budget
<b>REVENUES</b>							
LCFF Sources	\$195,091,574.00	\$197,195,636.30	\$213,123,621.00	\$213,708,424.82	\$219,974,449.00	\$219,941,424.00	\$200,093,182.00
Federal Revenue	12,447,191.00	13,267,141.12	13,432,578.00	14,417,924.18	15,120,760.00	13,864,732.00	26,740,162.00
Other State Revenue	16,795,664.00	20,504,119.50	23,102,269.00	23,336,756.49	20,877,537.00	25,956,893.00	28,359,857.00
Other Local Revenue	28,272,372.00	31,009,275.74	32,064,497.00	32,092,269.48	16,222,075.00	17,614,922.00	19,684,525.00
<b>TOTAL REVENUES</b>	<b>\$252,606,801.00</b>	<b>\$261,976,172.66</b>	<b>\$281,722,965.00</b>	<b>\$283,555,374.97</b>	<b>\$272,194,821.00</b>	<b>\$277,377,971.00</b>	<b>\$274,877,726.00</b>
<b>EXPENDITURES</b>							
Certificated Salaries	98,758,034.00	97,197,727.95	104,305,233.00	103,449,155.52	107,687,826.00	105,372,628.00	113,878,251.00
Classified Salaries	34,417,101.00	34,945,889.30	39,495,766.00	38,424,011.85	42,619,031.00	41,739,683.00	43,940,271.00
Employee Benefits	52,968,191.00	52,008,195.81	59,960,775.00	58,325,547.11	63,762,301.00	66,485,740.00	68,708,878.00
Books and Supplies	19,600,140.00	10,276,762.64	17,193,797.00	11,076,329.68	22,810,291.00	14,001,344.00	27,333,049.00
Services, Other Operating Expenses	37,446,755.00	38,710,858.30	41,161,050.00	41,901,776.62	26,519,390.00	26,949,394.00	26,996,601.00
Capital Outlay	4,525,954.00	9,664,515.86	21,979,142.00	14,959,118.93	8,413,467.00	15,325,948.00	6,988,490.00
Other Outgo (excluding Direct Support/Indirect Costs)	5,917,271.00	5,770,835.29	5,779,006.00	5,580,507.45	5,418,326.00	3,319,326.00	3,355,820.00
Other Outgo - Transfers of Indirect Costs	(754,414.00)	(769,799.30)	(833,050.00)	(853,179.46)	(853,827.00)	(799,292.00)	(693,330.00)
<b>TOTAL EXPENDITURES</b>	<b>\$252,879,032.00</b>	<b>\$247,804,985.85</b>	<b>\$289,041,719.00</b>	<b>\$272,863,267.70</b>	<b>\$276,376,805.00</b>	<b>272,394,771.00</b>	<b>290,508,030.00</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(272,231.00)</b>	<b>14,171,186.81</b>	<b>(7,318,754.00)</b>	<b>10,692,107.27</b>	<b>(4,181,984.00)</b>	<b>4,983,200.00</b>	<b>(15,630,304.00)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Inter-fund Transfers In	-	12,695.21	1,500,000.00	(1,500,000.00)	2,531,054.00	2,548,596.00	-
Inter-fund Transfers Out	(426,644.00)	(64,762.39)	(115,782.00)	(106,427.35)	(50,432.00)	(373,459.00)	(509,120.00)
Other Sources (Uses)	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-
<b>TOTAL, OTHER FINANCING SOURCES (USES)</b>	<b>(426,644.00)</b>	<b>(52,087.18)</b>	<b>1,384,218.00</b>	<b>1,393,572.65</b>	<b>2,480,622.00</b>	<b>2,175,137.00</b>	<b>(509,120.00)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(698,875.00)</b>	<b>14,119,099.63</b>	<b>(5,934,536.00)</b>	<b>12,085,679.92</b>	<b>(1,701,362.00)</b>	<b>7,158,337.00</b>	<b>(16,139,424.00)</b>
<b>BEGINNING BALANCE, as of July 1</b>	<b>52,333,293.00</b>	<b>58,506,464.17</b>	<b>70,295,426.00</b>	<b>72,625,563.80</b>	<b>81,665,057.00</b>	<b>84,711,243.00</b>	<b>91,869,580.00</b>
<b>Audit Adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As of July 1 – Audited</b>	<b>52,333,293.00</b>	<b>58,506,464.17</b>	<b>70,295,426.00</b>	<b>72,625,563.80</b>	<b>81,665,057.00</b>	<b>84,711,243.00</b>	<b>91,869,580.00</b>
<b>Other Restatements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjusted Beginning Balance</b>	<b>52,333,293.00</b>	<b>58,506,464.17</b>	<b>70,295,426.00</b>	<b>72,625,563.80</b>	<b>81,665,057.00</b>	<b>84,711,243.00</b>	<b>91,869,580.00</b>
<b>ENDING BALANCE</b>	<b>\$51,634,418.00</b>	<b>\$72,625,563.80</b>	<b>\$64,360,890.00</b>	<b>\$84,711,243.72</b>	<b>\$79,963,695.00</b>	<b>\$91,869,580.00</b>	<b>\$75,730,156.00</b>
<b>Unrestricted Ending Balance</b>	<b>\$46,088,268.00</b>	<b>\$62,431,408.65</b>	<b>\$56,565,734.00</b>	<b>\$77,227,561.32</b>	<b>\$73,998,706.00</b>	<b>\$83,685,769.00</b>	<b>\$63,471,959.00</b>
<b>Restricted Ending Balance</b>	<b>\$5,546,150.00</b>	<b>\$10,194,155.15</b>	<b>\$7,795,156.00</b>	<b>\$7,483,682.40</b>	<b>\$5,964,989.00</b>	<b>\$8,183,811.00</b>	<b>\$12,258,197.00</b>

<sup>(1)</sup> Pursuant to GASB Statement No. 54, the Special Reserve Fund for Other than Capital Outlay Projects ("Fund 17") does not meet the definition of a special revenue fund. Accordingly, the Audited Actuals reflect the unrestricted and restricted general fund as well as Fund 17, but the District's unaudited actuals, adopted budgets, and interim reports reflect only the unrestricted and restricted general fund.

<sup>(2)</sup> Figures are projections.

Source: Val Verde Unified School District original adopted budgets for fiscal years 2017-18 through 2020-21; unaudited actuals for fiscal years 2017-18 and 2018-19; and estimated actuals for fiscal year 2019-20.

## District Debt Structure

**Long-Term Debt Summary.** A schedule of changes in the District’s long-term obligations for the year ended June 30, 2019, consisted of the following:

Long-Term Debt	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General Obligation Bonds <sup>(1)</sup>	\$146,734,625	\$10,682,488	\$25,565,000	\$131,852,113	\$1,820,000
Premium on Issuance	11,050,141	425,030	772,271	10,702,900	-
Certificates of Participation	65,560,000	32,145,000	40,095,000	57,610,000	2,280,000
Premium on Issuance	3,686,040	3,488,429	398,582	6,775,887	-
Discount on Issuance	(255,903)	-	(255,903)	-	-
Capital Leases	45,112	-	22,472	22,640	22,640
Supplemental Early Retirement Program	65,050	-	65,050	-	-
Net Other Postemployment Benefits (OPEB) Liability	9,557,155	2,402,692	4,874,526	7,085,321	-
Total	<u>\$236,442,220</u>	<u>\$49,143,639</u>	<u>\$71,536,998</u>	<u>\$214,048,861</u>	<u>\$4,122,640</u>

<sup>(1)</sup> Does not reflect the issuance of the New Money Bonds and the Refunding Bonds; includes the Refunded Bonds.  
Source: Val Verde Unified School District Audited Financial Report for fiscal year 2018-19.

**General Obligation Bonds.** Prior to the issuance of the Bonds, the District has outstanding six series of general obligation bonds, which are secured by *ad valorem* taxes levied upon all property subject to taxation by the District on parity with the Bonds. See “THE BONDS – Outstanding Bonds” and “– Aggregate Debt Service” in the front portion of the Official Statement for more information about such outstanding bonds.

**Certificates of Participation.** On July 26, 2005, the District issued \$65,630,000 aggregate principal amount of its Certificates of Participation (Refunding and School Construction Project) 2005 Series B (the “2005B Certificates”), to prepay certain outstanding certificates of participation of the District.

On September 29, 2009, the District issued \$43,920,000 aggregate principal amount of its Certificates of Participation (Refunding Project) 2009 Series A (the “2009A Certificates”), to prepay certain outstanding lease-purchase obligations of the District.

On February 4, 2015, the District issued \$30,090,000 of its Certificates of Participation (Refunding and 2015 Combined Projects), 2015 Series A (the “2015A Certificates”), for the purpose of refunding, on a current basis, all of the outstanding 2005B Certificates and to finance the costs of certain facilities of the District. The 2015A Certificates mature on August 1, 2035, with interest rates ranging from 2.00% to 5.00%

On December 4, 2018, the District issued \$32,145,000 aggregate principal amount of its Refunding Certificates of Participation, Series 2018 (the “2018 Certificates”), for the purpose of advance refunding the 2009A Certificates. The 2018 Certificates mature on March 1, 2036, with interest rates ranging from 3.625% to 5.000%

The certificates of participation of the District mature through 2036 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2020	\$2,280,000	\$2,707,550	\$4,987,550
2021	2,385,000	2,603,600	4,988,600
2022	2,480,000	2,489,175	4,969,175
2023	2,605,000	2,363,675	4,968,675
2024	2,745,000	2,231,800	4,976,800
2025-2029	15,870,000	8,936,500	24,806,500
2030-2034	19,930,000	4,810,000	24,740,000
2035-2036	9,315,000	525,850	9,840,850
Total	\$57,610,000	\$26,668,150	\$84,278,150

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2018-19.

**Capital Leases.** The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District’s liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2018	\$49,713
Payments	(25,937)
Balance, June 30, 2019	\$23,776

The capital leases have minimum payments as follows:

Year Ending June 30, 2020	\$23,776
Less: Amount Representing Interest	(1,136)
Present Value of Minimum Lease Payments	\$22,640

Source: Val Verde Unified School District Audited Financial Report for fiscal year 2018-19

**Other Post-Employment Benefits (OPEBs).** In addition to the retirement plan benefits with CalSTRS and CalPERS (defined below), the District provides a Postemployment Benefits Plan (the “Plan”) – a single-employer defined benefit plan, administered by the Benefit Trust Company, that is used to provide postemployment benefits other than pensions for the District. The Plan provides medical benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the District. The Board of Education has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements. At June 30, 2019, the Plan covered a total of 1,578 employees, which included 1,507 active employees and 71 inactive employees or beneficiaries currently receiving benefits.

**Contributions.** The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, represented and unrepresented groups. Plan members are not required to contribute to the Plan. For fiscal year 2018-19, the District contributed \$2,062,098 to the Plan, \$384,098 of which was used for current premiums and \$1,678,000 of which was contributed to a trust. The District has established an irrevocable trust for the pre-funding of OPEB benefits.

**Total OPEB Liability.** Pacific Crest Actuaries, LLC, Chatsworth, California has prepared an actuarial valuation for the Plan, as of the June 30, 2019 valuation date (the “Actuarial Report”). The Actuarial Report included the following assumptions: a discount rate of 6.00%, salary increases of 3.00%

per year (including inflation), inflation of 2.25% per year, a healthcare cost increase of 8.00% for 2019, and an investment rate of return of 6.00% (net of OPEB plan investment expense, including inflation).

The following summarizes the changes in the total OPEB liability during the year ended June 30, 2019:

	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability</b>
<b>Balance at June 30, 2018</b>	\$16,692,941	\$7,135,786	\$9,557,155
Changes recognized for measurement period:			
Service cost	1,175,905	-	1,175,905
Interest	1,109,698	-	1,109,698
Contributions - employer	-	2,062,098	(2,062,098)
Net investment income	-	500,641	(500,641)
Changes of assumptions or other inputs	(2,186,712)	(43,270)	(2,143,442)
Benefit payments*	(509,173)	(384,098)	(125,075)
Administrative expense	-	(73,819)	73,819
<b>Net change in total OPEB liability</b>	<b>(410,282)</b>	<b>2,061,552</b>	<b>(2,471,834)</b>
<b>Balance at June 30, 2019</b>	<b>\$16,282,659</b>	<b>\$9,197,338</b>	<b>\$7,085,321</b>

\* Amount includes implicit subsidy associated with benefits paid.

For more information regarding the District’s OPEB obligations and liabilities for fiscal year 2018-19, see Note 9 to the District’s financial statements in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

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

**Tax and Revenue Anticipation Notes.** The District does not expect to issue tax and revenue anticipation notes (“TRANS”) or borrow funds to supplement the District’s cash flow in fiscal years 2019-20 or 2020-21. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

**Community Facilities District (CFD) Special Tax Bonds.** The bonds (the “CFD Bonds”) issued by certain community facilities districts (“CFDs”) established by the District as authorized by the Mello-

Roos Community Facilities Act of 1983 as amended are not obligations of the District. The CFD Bonds are payable from the proceeds of an annual special tax levied on and collected from property within the respective CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Board of Education of the District. Neither the faith and credit nor the general taxing power of the CFD, the District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the CFD Bonds. Reserves have been established from the proceeds of the CFD Bonds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in such reserves, the District has no duty to pay such delinquency out of any available funds of the District. The CFD debt of \$42,805,000 as of June 30, 2019, does not represent debt of the District. For more information about outstanding CFD Bonds, see Note 10 to the District’s financial statements in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

## Employment

As of January 2020, the District employed 951 full-time equivalent (“FTE”) certificated employees, 206 FTE confidential/management employees, and 643 full-time equivalent classified employees. For fiscal year 2018-19, the total certificated and classified payrolls paid from the general fund were approximately \$103.45 million and \$38.42 million, respectively. For fiscal year 2019-20, the total certificated and classified payrolls paid from the general fund are estimated to be approximately \$105.37 million and \$41.74 million, respectively, and are budgeted to be approximately \$113.88 million and \$43.94 million, respectively, in fiscal year 2020-21. These employees, except management employees, are represented by the bargaining units as noted below.

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
Val Verde Teachers’ Association	951	June 30, 2021
California School Employees Association	643	June 30, 2022

Source: Val Verde Unified School District.

## Retirement Benefits

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

**CalSTRS.** The CalSTRS defined benefit pension plan provides retirement benefits (generally 2% of final compensation for each year of credited service) to participating employees based on hiring date, age, final compensation and years of credited service. The CalSTRS benefit pension plan is funded through a combination of investment earnings and statutorily set contributions from participating employees, employers (including the District) and the State. Prior to fiscal year 2014-15, the statutorily set rates did not vary annually to adjust for funding shortfalls or actuarial surpluses. As a result, the combined employee, employer and State contributions to CalSTRS were not sufficient to pay actuarially determined amounts. To address the shortfall and implement a new funding strategy, Governor Brown signed into law Assembly Bill 1469 on June 24, 2014, as part of the fiscal year 2014-15 State budget (the “2014-15 State Budget”). The 2014-15 State Budget introduced phased increases to employee, employer and State contributions to CalSTRS and sets forth a plan to eliminate CalSTRS’ unfunded liability by June 30, 2046.

The 2014-15 State Budget increased employee contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. On July 1, 2018, the rate increased to 10.250% of pay for employees hired on or after January 1, 2013. Employer contribution rates were also increased in fiscal year 2014-15 to 8.88% of payroll, with such rate increasing by 1.85% each year thereafter, plateauing at 19.10% of payroll in July 2020. However, due to supplemental payments of approximately \$850 million pursuant to the 2019-20 State Budget, employer contribution rates are expected to decrease from 18.13% to 17.10% in fiscal year 2019-20 and 19.10% to 18.40% in fiscal year 2020-21 (see table below). The State’s total contribution was increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, and to 10.328% of payroll in fiscal year 2019-20. The State’s contribution includes an annual payment of 2.5% of payroll pursuant to a supplemental inflation protection program.

Pursuant to the 2014-15 State Budget, employer contribution rates, including school districts’ contribution rates, will increase in accordance with the following schedule:

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

\* Pursuant to the 2019-20 State Budget, an estimated \$850 million will be used to buy down employer contribution rates in fiscal years 2019-20 and 2020-21, resulting in decreased employer contribution rates of 17.10% and 18.40% in fiscal years 2019-20 and 2020-21, respectively. See “– State Funding of Education; State Budget Process – 2019-20 State Budget.”

† The 2020-21 May Revision proposes redirecting funds paid to CalSTRS towards long-term unfunded liabilities to further reduce employer contribution rates in fiscal years 2020-21 and 2021-22. This reallocation will reduce the CalSTRS employer contribution rate to approximately 16.15% in fiscal year 2020-21 and to 16.02% in fiscal year 2021-22. See “– State Funding of Education; State Budget Process – May Revision to the 2020-21 Proposed State Budget.”

Source: Assembly Bill 1469.

The following table sets forth the District’s employer contributions to CalSTRS as well as the State’s non-employer contributions to CalSTRS on behalf of the District for fiscal years 2016-17 through 2018-19, the estimated actuals for fiscal year 2019-20, and the budgeted contribution for fiscal year 2020-21.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Contributions to CalSTRS for Fiscal Years 2016-17 through 2020-21**

Fiscal Year	District Contribution	State On-Behalf Contribution
2016-17	\$11,425,458	\$7,049,839
2017-18	13,761,750	7,622,782
2018-19	16,548,901	8,605,793
2019-20 <sup>(1)</sup>	17,812,785	12,753,735
2020-21 <sup>(2)</sup>	18,179,443	12,773,735

<sup>(1)</sup> Estimated actuals for fiscal year 2019-20.

<sup>(2)</sup> Original adopted budget for fiscal year 2020-21.

Source: Val Verde Unified School District.

The District’s total employer contributions to CalSTRS for fiscal years 2016-17 through 2019-20 were equal to 100% of the required contributions for each year. Pursuant to the 2014-15 State Budget, beginning in fiscal year 2021-22, the State Teachers Retirement Board is required to increase or decrease employer contribution rates to the rates designed to eliminate the CalSTRS unfunded liability by June 30, 2046. A decrease in investment earnings may result in increased employer contribution rates in order to timely eliminate the CalSTRS unfunded liability. As the world is currently experiencing a pandemic, the District cannot predict the impact of the outbreak of COVID-19 on investment earnings and employer contribution rates. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak*.” However, under existing law, the State Teachers Retirement Board may not increase the employer contribution rate by more than 1% in any fiscal year up to a maximum contribution rate of 20.25%. The State Teachers Retirement Board may also adjust the State’s contribution rate by a maximum of 0.5% from year to year, based on the funding status of the CalSTRS actuarially determined unfunded liability.

As of June 30, 2018, an actuarial valuation (the “2018 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.2 billion, a decrease of approximately \$0.1 billion from the June 30, 2017 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2018 and June 30, 2017, based on the actuarial assumptions, were approximately 64.0% and 62.6%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2018 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2018 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPR (as defined herein). See “–*Governor’s Pension Reform*” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013.

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

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

CalPERS is funded by employee contributions and investment earnings, with the balance of the funding provided by employer contributions. School districts' contributions decrease when investment earnings rise and increase when investment earnings decline. As a result, declines in investment earnings may result in substantial increases in school district contributions. The District cannot make any predictions as to the effect of a global pandemic, including the outbreak of COVID-19, on investment earnings and school district contributions. See "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak*" for more information about the impact of COVID-19. Participating employees enrolled in CalPERS prior to January 1, 2013 contribute 7.00% of their respective salaries, while participating employees enrolled after January 1, 2013 contribute the higher of fifty percent of normal costs of benefits or an actuarially determined rate of 7.00% in fiscal year 2019-20. School districts are required to contribute to CalPERS at an actuarially determined rate, which was 18.062% of eligible salary expenditures for fiscal year 2018-19, and is 20.733% for fiscal year 2019-20.

On April 17, 2019, the CalPERS Board established the employer contribution rates and released certain information from the CalPERS Schools Pool Actuarial Valuation as of June 30, 2018 (the "2018 CalPERS Schools Pool Actuarial Valuation"). The actuarial funding method used in the 2018 CalPERS Schools Pool Actuarial Valuation is the "Entry Age Normal Cost Method." The 2018 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.625% inflation and payroll growth of 2.875% compounded annually. The 2018 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.25% compounded annually (net of administrative expenses) as of June 30, 2018 and 7.00% compounded annually (net of administrative expenses) as of June 30, 2019. The CalPERS Board adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.625% as of June 30, 2018 to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, the addition of \$904 million contributed by the State in July 2019, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to January 1, 2013, to those hired after such date, the projected employer contribution (as a percentage of payroll) is 22.8% and 24.9% for fiscal year 2020-21 and fiscal year 2021-22, respectively. The 2020-21 May Revision proposes redirecting State funding paid to CalPERS in fiscal year 2019-20 towards long-term unfunded liabilities to further reduce employer contribution rates in fiscal years 2020-21 and 2021-22. As a result, the 2020-21 May Revision projects that the CalPERS employer contribution rate will be reduced to 20.7% in fiscal year 2020-21 and to 22.84% in fiscal year 2021-22.

The following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2016-17 through 2018-19, the estimated actuals for fiscal year 2019-20, and the budgeted contribution for fiscal year 2020-21.

**VAL VERDE UNIFIED SCHOOL DISTRICT  
(Riverside County, California)  
Contributions to CalPERS for Fiscal Years 2016-17 through 2020-21**

Fiscal Year	District Contribution
2016-17	\$4,628,497
2017-18	5,503,372
2018-19	7,331,372
2019-20 <sup>(1)</sup>	8,515,524
2020-21 <sup>(2)</sup>	9,237,860

<sup>(1)</sup> Estimated actuals for fiscal year 2019-20.

<sup>(2)</sup> Original adopted budget for fiscal year 2020-21.

Source: Val Verde Unified School District

The District’s total employer contributions to CalPERS for fiscal years 2016-17 through 2019-20 were equal to 100% of the required contributions for each year.

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

***Governor’s Pension Reform.*** On August 28, 2012, Governor Brown and the State Legislature reached agreement on a law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees’ Pension Reform Act of 2012 (“PEPRA”) which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$137,300 for 2020, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires State employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. CalSTRS and CalPERS are more fully described in Note 13 to the District’s financial statements in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019.”

**Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures**

The District is a member of the Riverside Schools’ Risk Management Authority (“RSRMA”), the Riverside County Employer/Employee Partnership for Benefits (“REEP”), the Riverside Schools Insurance Authority (“RSIA”), and the Self-Insured Schools of California (“SISC”) joint powers authorities (“JPAs”). The relationships between the District and the JPAs is such that the JPAs are not a component unit of the District for its financial reporting purposes. The District has appointed one board member to the governing

board of each JPA. During the fiscal year 2018-19, the District made payments of \$1,214,776, \$3,787,037, \$9,082,051, and \$13,030,537 to RSIA, RSRMA, REEP, and SISC, respectively, for its property liability, workers' compensation, and health coverage. See Note 15 to the District's audited financial statements in APPENDIX B— "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2019" for more information.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

### **Limitations on Revenues**

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

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

***County of Orange v. Orange County Assessment Appeals Board No. 3.*** Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the

“taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

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

### **Article XIIB of the California Constitution**

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

### **Article XIIC and Article XIID of the California Constitution**

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

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIIC establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

### **Statutory Limitations**

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

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

### **Proposition 98 and Proposition 111**

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

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

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

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

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

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

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

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a “tax claw back” provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This

“tax claw back” provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

### **Proposition 30 and Proposition 55**

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

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

### **Applications of Constitutional and Statutory Provisions**

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

### **Proposition 2**

**General.** Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

**Rainy Day Fund.** The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year’s deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year’s deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the “Public School System Stabilization Account”) to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has

paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

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

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

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

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

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

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**APPENDIX B**

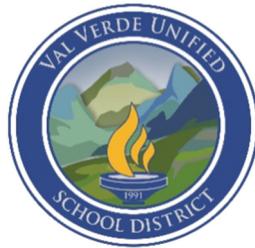
**FINANCIAL STATEMENTS OF THE DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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Annual Financial Report  
June 30, 2019

# Val Verde Unified School District



# VAL VERDE UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS JUNE 30, 2019

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### ***FINANCIAL SECTION***

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds - Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Proprietary Funds - Statement of Net Position	24
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	25
Proprietary Funds - Statement of Cash Flows	26
Fiduciary Funds - Statement of Net Position	27
Fiduciary Funds - Changes in Net Position	28
Notes to Financial Statements	29

### ***REQUIRED SUPPLEMENTARY INFORMATION***

General Fund - Budgetary Comparison Schedule	78
Special Education Local Plan Area - Budgetary Comparison Schedule	79
Schedule of Changes in the District's Net OPEB Liability and Related Ratios	80
Schedule of District Contributions for OPEB	81
Schedule of OPEB Investment Returns	82
Schedule of the District's Proportionate Share of the Net Pension Liability	83
Schedule of District Contributions	84
Note to Required Supplementary Information	85

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	88
Local Education Agency Organization Structure	90
Schedule of Average Daily Attendance	91
Schedule of Instructional Time	92
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	93
Schedule of Financial Trends and Analysis	94
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	95
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	96
Note to Supplementary Information	97

# VAL VERDE UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2019

---

### ***INDEPENDENT AUDITOR'S REPORTS***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	100
Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	102
Report on State Compliance	104

### ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

Summary of Auditor's Results	108
Financial Statement Findings	109
Federal Awards Findings and Questioned Costs	110
State Awards Findings and Questioned Costs	111
Summary Schedule of Prior Audit Findings	112



## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Val Verde Unified School District  
Perris, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Val Verde Unified 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; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Val Verde Unified School District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 78 and 79, schedule of changes in the District's net OPEB liability and related ratios on page 80, schedule of District contributions for OPEB on page 81, schedule of OPEB investment returns on page 82, schedule of the District's proportionate share of net pension liability on page 83, and the schedule of District contributions on page 84, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Val Verde Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as 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 accompanying supplementary information, as referred to in the previous paragraph, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

*Eide Bailly LLP*

Rancho Cucamonga, California  
December 5, 2019



# Val Verde Unified School District

975 W Morgan Street • Perris, CA 92571 • 951-940-6100

## BOARD OF EDUCATION:

Julio Gonzalez  
Matthew Serafin  
Marla Kirkland  
Ty Liddell  
Marisol Roque

**Michael R. McCormick**  
Superintendent

**Stacy Coleman**  
Deputy Superintendent  
Business Services

**Mark LeNoir**  
Assistant Superintendent  
Education Services

**Juan Cabral**  
Assistant Superintendent  
Human Resources

This section of Val Verde Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### *The Financial Statements*

The financial statements presented herein, include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Val Verde Unified School District.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *FINANCIAL HIGHLIGHTS OF THE PAST YEAR*

- The District generated \$214 million in revenue under the new Local Control Funding Formula.
- District Average Daily Attendance declined by 45 students in 2018-2019.
- During the year, the District received just over \$3.5 million in one-time finding.
- The District continues to be the Administrative Unit for the Riverside County SELPA, and has recorded non pass-through SELPA activity in the General Fund of the District. Total revenues and other sources for SELPA were \$20.1 million, while total expenditures and other uses were \$19.9 million.
- The District continues to show their commitment to fiscal solvency by contributing towards their OPEB liability.

### *REPORTING THE DISTRICT AS A WHOLE*

#### *The Statement of Net Position and the Statement of Activities*

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets, deferred outflows of resource, liabilities, and deferred inflows of resources of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the *financial position* of the District is improving or deteriorating.

The relationship between revenues and expenses is the District's *operating results*. Since the responsibility of the Board of Education is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

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

***Governmental Activities*** - Most of the District's services are reported in this category. This includes the education of transitional kindergarten through grade twelve students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as certificates of participation, finance these activities.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

---

***Business-Type Activities*** - The District charges fees to help it cover the costs of certain services it provides. The District's internal service fund programs and services are included here.

### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

***Governmental Funds*** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

***Proprietary Funds*** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements

### ***THE DISTRICT AS TRUSTEE***

#### ***Reporting the District's Fiduciary Responsibilities***

The District is the fiduciary for funds held on behalf of others, like our funds for associated student body activities and Community Facilities Districts. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *THE DISTRICT AS A SELPA ADMINISTRATIVE UNIT*

#### *Reporting the District's Administrative Unit Responsibilities*

The District is the Administrative Unit for the Riverside County Special Education Local Plan Area (SELPA). As the SELPA's Administrative Unit, the Val Verde Unified School District receives funds and is responsible for ensuring that every eligible child receives appropriate services. Costs for the Administrative Unit are provided by special funding from the State. These financial statements reflect all SELPA activities within the District's General Fund and the Special Education Pass-Through Fund.

### *THE DISTRICT AS A WHOLE*

#### *Net Position*

The District's net position was \$300,748,996 for the fiscal year ended June 30, 2019. Of this amount, \$(107,366,517) was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current assets	\$ 242,952,960	\$ 212,361,771
Capital assets	547,394,570	533,788,110
<b>Total Assets</b>	<u>790,347,530</u>	<u>746,149,881</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	70,248,264	63,056,658
<b>Liabilities</b>		
Current liabilities	99,015,786	52,544,183
Long-term obligations	214,048,861	236,442,220
Aggregate net pension liability	234,293,702	217,000,551
<b>Total Liabilities</b>	<u>547,358,349</u>	<u>505,986,954</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pensions	12,488,449	10,204,943
<b>Net Position</b>		
Net investment in capital assets	375,348,115	346,249,289
Restricted	32,767,398	56,553,165
Unrestricted (deficit)	<u>(107,366,517)</u>	<u>(109,787,812)</u>
<b>Total Net Position</b>	<u>\$ 300,748,996</u>	<u>\$ 293,014,642</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

---

### *Changes in Net Position*

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the *Statement of Activities*, so you can see our total revenues for the year.

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$526,182,203. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$78,347,349, because the cost was paid by those who benefited from the programs \$11,396,618, or by other governments and organizations who subsidized certain programs with grants and contributions \$229,922,676. We paid for the remaining "public benefit" portion of our governmental activities with \$187,399,892 in Federal and State funds, and with other revenues \$26,850,022, like interest and general entitlements.

**Table 2**

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 11,396,618	\$ 8,471,613
Operating grants and contributions	229,743,633	216,301,360
Capital grants and contributions	179,043	40,733,112
General revenues:		
Federal and State aid not restricted to specific purposes	187,399,892	174,118,981
Property taxes	78,347,349	70,696,788
Other general revenues	26,850,022	20,562,494
<b>Total Revenues</b>	<u>533,916,557</u>	<u>530,884,348</u>
<b>Expenses</b>		
Instruction	186,353,842	155,990,611
Instruction-related activities	34,581,321	30,745,056
Pupil services	38,037,072	45,402,524
General administration	18,275,941	16,121,049
Plant services	26,418,876	23,423,655
Other	222,515,151	209,836,769
<b>Total Expenses</b>	<u>526,182,203</u>	<u>481,519,664</u>
<b>Change in Net Position</b>	<u>\$ 7,734,354</u>	<u>\$ 49,364,684</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

---

*Governmental Activities*

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

**Table 3**

	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 186,353,842	\$ 143,796,152	\$ 155,990,611	\$ 77,996,837
Instruction-related activities	34,581,321	26,966,375	30,745,056	24,801,632
Home-to-school transportation	2,654,393	2,654,393	2,569,086	2,569,086
Food services	13,435,669	1,317,832	23,807,497	11,786,291
Other pupil services	21,947,010	16,490,477	19,025,941	14,067,049
Administration	18,275,941	16,649,962	16,121,049	14,780,867
Plant services	26,418,876	26,076,074	23,423,655	23,051,369
Ancillary services	2,657,284	2,604,670	2,041,219	1,998,600
Interest on long-term obligations	9,737,849	9,737,849	8,021,346	8,021,346
Other outgo	210,120,018	38,569,125	199,774,204	36,940,502
<b>Total</b>	<b>\$ 526,182,203</b>	<b>\$ 284,862,909</b>	<b>\$ 481,519,664</b>	<b>\$ 216,013,579</b>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *THE DISTRICT'S FUNDS*

As the District completed the fiscal year, our governmental funds reported a combined fund balance of \$146,890,218, which is a decrease of \$15,971,840 from last year (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2018	Revenues	Expenditures	June 30, 2019
General Fund	\$ 76,590,818	\$ 292,301,890	\$ 281,651,617	\$ 87,241,091
Special Education Pass-Through Fund	150,000	209,892,804	209,892,804	150,000
Building Fund	28,365,613	10,790,205	8,763,625	30,392,193
Non-Major Governmental Funds	57,755,627	66,119,047	98,681,199	25,193,475
<b>Total</b>	<b>\$ 162,862,058</b>	<b>\$ 579,103,946</b>	<b>\$ 598,989,245</b>	<b>\$ 142,976,759</b>

The primary reasons for these increases are:

1. The General Fund is the District's principal operating fund. During fiscal year 2018-2019, the fund balance in the General Fund increased by \$10,650,273 leaving an ending balance of \$87,241,091 due to increased revenue and carryover.
2. The Building Fund increased due to new bond issuance.

### *General Fund Budgetary Highlights*

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 78.

Our original General Fund revenue budget was projected to be \$281,723,265. It was adjusted throughout the year with a final revision of \$289,292,724. The actual amount of revenue received was \$292,301,890, which was \$3,009,166 more than the final budget.

Our original expenditure budget was projected to be \$289,041,719. It also was adjusted throughout the year with a final revision of \$281,618,254. The actual amount of expenditures was \$276,397,675, which was \$5,220,579 less than the final budget. The decreases in variances of the Final Budget to the Actual Expenditures were due to:

1. Increases in the cost of certificated salary costs \$614,886 and decreases in employee benefits \$7,584,734.
2. Increases in books and supplies \$2,113,621, and services and other operating expenditures \$6,224,394 due to money budgeted for use by restricted programs not being used in the current year.
3. Decrease in capital outlay costs of \$1,260,020.
4. Decrease in other outgo of \$35,083.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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- Increases in debt service \$5,147,515 due to payments being made from Debt Service Fund for Blended Component Units.

### ***CAPITAL ASSET AND DEBT ADMINISTRATION***

#### ***Net Capital Assets***

At June 30, 2019, the District had net \$547,394,570 in a broad range of capital assets, including land, buildings, and furniture and equipment - each having a value of at least \$5,000. This amount represents a net increase (including additions and depreciation) of \$13,606,460, or 2.55 percent, above last year.

**Table 5**

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 154,937,546	\$ 137,330,293
Buildings and improvements	379,506,854	383,727,025
Equipment	12,950,170	12,730,792
<b>Total</b>	<b>\$ 547,394,570</b>	<b>\$ 533,788,110</b>

This year's additions of \$11,464,602 include mostly cost associated with the building of Orange Vista High School.

Several capital projects are planned for the 2019-2020 year. We anticipate capital additions to be around \$16.3 million for the 2019-2020 year. We present more detailed information about our capital assets in Note 5 to the financial statements.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### *Long-Term Obligations*

At the end of this year, the District had \$214,048,861 in long-term obligations outstanding versus \$236,442,220 last year, a decrease of 9.47 percent. Long-term obligations at June 30, 2019, consisted of:

**Table 6**

	Governmental Activities	
	2019	2018
General Obligation Bonds	\$ 131,852,113	\$ 146,734,625
Premium on Issuance	10,702,900	11,050,141
Certificates of Participation	57,610,000	65,560,000
Premium on Issuance	6,775,887	3,686,040
Discount on Issuance	-	(255,903)
Capital Leases	22,640	45,112
Supplemental Early Retirement Program	-	65,050
Net Other Postemployment Benefits (OPEB) Liability	7,085,321	9,557,155
<b>Total</b>	<b>\$ 214,048,861</b>	<b>\$ 236,442,220</b>

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

### *Net Pension Liability (NPL)*

At year end, the District has a net pension liability of \$234,293,702 versus \$217,000,551 last year, an increase of \$17,293,151, or 7.97 percent.

### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

In considering the District Budget for the 2019-2020 year, the District Board of Education and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Local Control Funding Formula per Average Daily Attendance (ADA) Cost of Living Adjustment (COLA) of 3.26 percent.
2. Federal income will be projected at the prior year 2018-2019 level.
3. Other State income (categorical projects) will be projected at the prior year 2018-2019 level.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

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Expenditures are based on the following Student - Teacher Ratio Forecasts:

<u>Grade</u>	<u>Staffing Ratio</u>	<u>Enrollment Ratios</u>
Kindergarten	30:1	30:1
Grades one through three	30:1	30:1
Grades four and five	30:1	30:1
Grades six through eight	29:1	35:1
Grades nine through twelve	29:1	35:1

The new items specifically addressed in the expenditure budget are:

1. Increases in spending as a result of increased Supplemental and Concentration dollars through LCFF.
2. Increases to the employer contribution rate for CalSTRS and CalPERS.

***CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If there are questions about this report or a need for any additional financial information, contact Kristin Merritt, Director of Fiscal Services, at Val Verde Unified School District, 975 W. Morgan Street, Perris, California, 92571, or e-mail at kmerritt@valverde.edu.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2019

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 172,910,689
Receivables	69,804,007
Stores inventories	238,264
Capital assets	
Land and construction in process	154,937,546
Capital assets being depreciated	559,668,535
Accumulated depreciation	(167,211,511)
Total Capital Assets	<u>547,394,570</u>
<b>Total Assets</b>	<u><b>790,347,530</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	69,990,829
Deferred outflows of resources related to net postemployment benefits (OPEB) liability	257,435
<b>Total Deferred Outflows of Resources</b>	<u><b>70,248,264</b></u>
<b>LIABILITIES</b>	
Accounts payable	95,541,185
Interest payable	3,126,686
Unearned revenue	347,915
Long-term obligations	
Current portion of long-term obligations other than pensions	4,122,640
Noncurrent portion of long-term obligations other than pensions	209,926,221
Total Long-Term Obligations	<u>214,048,861</u>
Aggregate net pension liability	<u>234,293,702</u>
<b>Total Liabilities</b>	<u><b>547,358,349</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	10,528,046
Deferred inflows of resources related to net postemployment benefits (OPEB) liability	1,960,403
<b>Total Deferred Inflows of Resources</b>	<u><b>12,488,449</b></u>
<b>NET POSITION</b>	
Net investment in capital assets	375,348,115
Restricted for:	
Debt service	6,555,559
Capital projects	15,019,162
Educational programs	8,073,087
Other activities	3,119,590
Unrestricted (deficit)	(107,366,517)
<b>Total Net Position</b>	<u><u><b>\$ 300,748,996</b></u></u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 186,353,842	\$ 6,948,315	\$ 35,430,332	\$ 179,043	\$(143,796,152)
Instruction-related activities:					
Supervision of instruction	15,119,912	-	6,506,188	-	(8,613,724)
Instructional library, media, and technology	2,364,446	-	95,672	-	(2,268,774)
School site administration	17,096,963	3,246	1,009,840	-	(16,083,877)
Pupil services:					
Home-to-school transportation	2,654,393	-	-	-	(2,654,393)
Food services	13,435,669	453,913	11,663,924	-	(1,317,832)
All other pupil services	21,947,010	8,622	5,447,911	-	(16,490,477)
Administration:					
Data processing	4,968,884	-	1,525	-	(4,967,359)
All other administration	13,307,057	37,013	1,587,441	-	(11,682,603)
Plant services	26,418,876	-	342,802	-	(26,076,074)
Ancillary services	2,657,284	5,254	47,360	-	(2,604,670)
Interest on long-term obligations	9,737,849	-	-	-	(9,737,849)
Other outgo	210,120,018	3,940,255	167,610,638	-	(38,569,125)
<b>Total Governmental Activities</b>	<b>\$ 526,182,203</b>	<b>\$ 11,396,618</b>	<b>\$ 229,743,633</b>	<b>\$ 179,043</b>	<b>(284,862,909)</b>
General revenues and subventions:					
					69,615,006
					6,358,013
					2,374,330
					187,399,892
					1,652,996
					25,197,026
					<u>292,597,263</u>
					<b>Change in Net Position</b> 7,734,354
					<b>Net Position - Beginning</b> 293,014,642
					<u><b>Net Position - Ending</b> \$ 300,748,996</u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2019**

	<b>General Fund</b>	<b>Special Education Pass-Through Fund</b>	<b>Building Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 88,652,801	\$ 22,505,571	\$ 31,669,141
Receivables	11,035,281	56,848,829	205,935
Due from other funds	1,766,088	1,853,186	114,878
Stores inventories	60,360	-	-
<b>Total Assets</b>	<b>\$ 101,514,530</b>	<b>\$ 81,207,586</b>	<b>\$ 31,989,954</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 11,906,932	\$ 79,790,083	\$ 1,597,761
Due to other funds	2,062,992	1,267,503	-
Unearned revenue	303,515	-	-
<b>Total Liabilities</b>	<b>14,273,439</b>	<b>81,057,586</b>	<b>1,597,761</b>
<b>Fund Balances:</b>			
Nonspendable	85,360	-	-
Restricted	7,923,087	150,000	30,392,193
Assigned	2,529,847	-	-
Unassigned	76,702,797	-	-
<b>Total Fund Balances</b>	<b>87,241,091</b>	<b>150,000</b>	<b>30,392,193</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 101,514,530</b>	<b>\$ 81,207,586</b>	<b>\$ 31,989,954</b>

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



<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 29,881,842	\$ 172,709,355
1,712,908	69,802,953
209,806	3,943,958
177,904	238,264
<u>\$ 31,982,460</u>	<u>\$ 246,694,530</u>

\$ 2,217,663	\$ 95,512,439
613,463	3,943,958
44,400	347,915
<u>2,875,526</u>	<u>99,804,312</u>

181,147	266,507
28,924,303	67,389,583
1,484	2,531,331
-	76,702,797
<u>29,106,934</u>	<u>146,890,218</u>

<u>\$ 31,982,460</u>	<u>\$ 246,694,530</u>
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**VAL VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

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**Total Fund Balance - Governmental Funds** \$ 146,890,218

**Amounts Reported for Governmental Activities in the Statement  
of Net Position are Different Because:**

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

The cost of capital assets is:	\$ 714,606,081	
Accumulated depreciation is:	<u>(167,211,511)</u>	
Net Capital Assets		547,394,570

An internal service fund is used by the District's management to charge  
the costs of the dental and vision program to the individual funds. The  
assets and liabilities of the Internal Service Fund are included with  
governmental activities. Internal Service Fund net assets are:

173,642

In governmental funds, unmatured interest on long-term obligations is  
recognized in the period when it is due. On the government-wide financial  
statements, unmatured interest on long-term obligations is recognized when  
it is incurred.

(3,126,686)

Deferred outflows of resources related to pensions represent a  
consumption of net position in a future period and is not reported in the  
District's funds. Deferred outflows of resources related to pensions at  
year end consist of:

Pension contributions subsequent to measurement date	23,880,273	
Net change in proportionate share of net pension liability	7,903,567	
Differences between projected and actual earnings on pension plan investments	585,937	
Differences between expected and actual experience in the measurement of the total pension liability	5,188,118	
Changes of assumptions	<u>32,432,934</u>	
Total Deferred Outflows of Resources Related to Pensions		69,990,829

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION (CONTINUED)  
JUNE 30, 2019**

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Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	\$ (1,891,415)	
Difference between projected and actual earnings on pension plan investments	(6,271,038)	
Differences between expected and actual experience in the measurement of the total pension liability	<u>(2,365,593)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (10,528,046)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year end consist of the difference between projected and actual earnings on OPEB plan investments.

257,435

Deferred inflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year end consist of changes of assumptions.

(1,960,403)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

(234,293,702)

Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.

Long-term obligations at year end consist of:

General obligation bonds	(128,604,169)	
Premium on issuance	(10,702,900)	
Certificates of participation	(57,610,000)	
Premium on issuance	(6,775,887)	
Capital lease obligations	(22,640)	
Net other postemployment benefits (OPEB) liability	(7,085,321)	
In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unamortized on the general obligation bonds to date is:	<u>(3,247,944)</u>	
Total Long-Term Obligations		<u>(214,048,861)</u>
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ 300,748,996</u></u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>General Fund</b>	<b>Special Education Pass-Through Fund</b>
<b>REVENUES</b>		
Local Control Funding Formula	\$ 213,708,425	\$ 34,799,035
Federal sources	13,978,519	50,854,576
Other State sources	32,018,679	123,853,693
Other local sources	32,596,267	385,500
<b>Total Revenues</b>	<b>292,301,890</b>	<b>209,892,804</b>
<b>EXPENDITURES</b>		
Current		
Instruction	164,537,141	-
Instruction-related activities:		
Supervision of instruction	14,465,092	-
Instructional library, media, and technology	2,253,064	-
School site administration	15,746,102	-
Pupil services:		
Home-to-school transportation	2,654,393	-
Food services	194,095	-
All other pupil services	20,688,852	-
Administration:		
Data processing	4,518,893	-
All other administration	11,366,445	-
Plant services	26,021,590	-
Ancillary services	2,609,664	-
Other outgo	407,055	209,892,804
Facility acquisition and construction	10,909,351	-
Debt service		
Principal	22,472	-
Interest and other	3,466	-
<b>Total Expenditures</b>	<b>276,397,675</b>	<b>209,892,804</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>15,904,215</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers in	-	-
Other sources - proceeds from bond issuance	-	-
Other sources - proceeds from premium on bond issuance	-	-
Other sources - proceeds from CFD issuance	-	-
Other sources - proceeds from COP issuance	-	-
Other sources - proceeds from preimum on COP issuance	-	-
Transfers out	(5,253,942)	-
Other uses - COP refunding	-	-
Other uses - bond refunding	-	-
<b>Net Financing Sources (Uses)</b>	<b>(5,253,942)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>10,650,273</b>	<b>-</b>
<b>Fund Balances - Beginning</b>	<b>76,590,818</b>	<b>150,000</b>
<b>Fund Balances - Ending</b>	<b>\$ 87,241,091</b>	<b>\$ 150,000</b>

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

<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 248,507,460
-	10,799,053	75,632,148
-	3,471,630	159,344,002
650,720	10,564,128	44,196,615
<u>650,720</u>	<u>24,834,811</u>	<u>527,680,225</u>
-	1,611,098	166,148,239
-	555	14,465,647
-	-	2,253,064
-	476,745	16,222,847
-	-	2,654,393
-	12,656,884	12,850,979
-	139,617	20,828,469
-	-	4,518,893
-	945,357	12,311,802
-	332,361	26,353,951
-	-	2,609,664
-	735,159	211,035,018
8,415,352	7,261,018	26,585,721
-	3,670,000	3,692,472
348,273	9,637,920	9,989,659
<u>8,763,625</u>	<u>37,466,714</u>	<u>532,520,818</u>
<u>(8,112,905)</u>	<u>(12,631,903)</u>	<u>(4,840,593)</u>
139,485	5,253,942	5,393,427
10,000,000	-	10,000,000
-	425,030	425,030
-	3,885,294	3,885,294
-	32,145,000	32,145,000
-	3,488,429	3,488,429
-	(139,485)	(5,393,427)
-	(37,515,000)	(37,515,000)
-	(23,560,000)	(23,560,000)
<u>10,139,485</u>	<u>(16,016,790)</u>	<u>(11,131,247)</u>
2,026,580	(28,648,693)	(15,971,840)
28,365,613	57,755,627	162,862,058
<u>\$ 30,392,193</u>	<u>\$ 29,106,934</u>	<u>\$ 146,890,218</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019**

---

**Total Net Change in Fund Balances - Governmental Funds** \$ (15,971,840)  
**Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:**

Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlay exceeds depreciation in the period.

Capital outlay	\$ 29,071,855	
Depreciation expense	<u>(15,465,395)</u>	
		13,606,460

In the Statement of Activities, certain operating expenses - special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits used were more than the amounts earned by \$60,050.

65,050

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.

(10,682,083)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.

768,866

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Sale of general obligation bonds	(10,000,000)	
Refunding certificates of participation	<u>(32,145,000)</u>	
Combined adjustment		(42,145,000)

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



**VAL VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2019**

---

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

**Change in Net Position of Governmental Activities**

\$	72,078
\$	<u>7,734,354</u>

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 201,334
Receivables	1,054
<b>Total Assets</b>	<b><u>\$ 202,388</u></b>
 <b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	<u>\$ 28,746</u>
 <b>NET ASSETS</b>	
Restricted	<u>\$ 173,642</u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2019**

---

	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	<u>\$ 455,982</u>
<b>OPERATING EXPENSES</b>	
Professional and contract services	<u>386,730</u>
<b>Operating Income</b>	<u><b>69,252</b></u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>2,826</u>
<b>Change in Net Assets</b>	72,078
<b>Total Net Assets - Beginning</b>	<u>101,564</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 173,642</u></u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 455,982
Cash payments for other operating expenses	(375,098)
Net Cash Provided by Operating Activities	<u>80,884</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>2,082</u>
 Net change in cash and cash equivalents	82,966
Cash and cash equivalents - Beginning	118,368
Cash and cash equivalents - Ending	<u>\$ 201,334</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 69,252
Changes in assets and liabilities:	
Accrued liabilities	11,632
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 80,884</u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

	<u>Agency Funds</u>		<u>Trust Funds</u>	<u>Total Fiduciary Funds</u>
	<u>Associated Student Bodies</u>	<u>Financing Authority</u>	<u>Retiree Benefits Trust</u>	
<b>ASSETS</b>				
Deposits and investments	\$ 1,062,949	\$ 9,143,067	\$ 9,197,338	\$ 19,403,354
Receivables	110	-	-	110
Stores inventories	77,882	-	-	77,882
<b>Total Assets</b>	<u>\$ 1,140,941</u>	<u>\$ 9,143,067</u>	<u>\$ 9,197,338</u>	<u>\$ 19,481,346</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 80	\$ -	\$ -	\$ 80
Due to bondholders	-	9,143,067	-	9,143,067
Due to student groups	1,140,861	-	-	1,140,861
<b>Total Liabilities</b>	<u>1,140,941</u>	<u>9,143,067</u>	<u>-</u>	<u>10,284,008</u>
<b>NET POSITION</b>				
Held in trust for retiree benefits			9,197,338	9,197,338
<b>Total Net Position</b>			<u>\$ 9,197,338</u>	<u>\$ 9,197,338</u>

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2019**

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	<b>Retiree Benefits Trust</b>
<b>ADDITIONS</b>	
District contributions	\$ 900,000
Interest	363,519
<b>Total Additions</b>	<u>1,263,519</u>
<b>DEDUCTIONS</b>	
Retiree benefits	73,819
Decrease in fair market value of investments	(93,852)
<b>Total Deductions</b>	<u>(20,033)</u>
<b>Change in Net Position</b>	1,283,552
<b>Net Position - Beginning</b>	<u>7,913,786</u>
<b>Net Position - Ending</b>	<u>\$ 9,197,338</u>

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Val Verde Unified School District (the District) was unified on July 1, 1991, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates twelve elementary schools, four middle schools, two high schools, one opportunity school, one independent study program, and a continuation high school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Val Verde Unified School District, this includes general operations, food service, and student related activities of the District.

#### Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

Val Verde Unified School District has financial and operational relationship, which meets the reporting entity definition criteria of the GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion as a component unit, Perris Valley Financing Authority (Corporation).

The financial activities of the COPs have been included in the financial statements of the District in the Debt Services Fund for Blended Component Units. Certificates of participation issued by the Corporation and Financing Authorities are included in the long-term obligations footnote. Individually prepared financial statements are not prepared for the Corporation.

The Val Verde Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the CFD Capital Fund and in the Fiduciary Funds Statement as the Financing Authority. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the Statement of Net Position as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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The following are those aspects of the relationship between the District and the above entities, which satisfy GASB Codification Section 2100 criteria.

### **Manifestations of Oversight**

- The entities' Board of Directors was appointed by the District's governing board.
- The entities have no employees. The District's Superintendent and Deputy Superintendent, Business Services, function as agents of the entities. Neither individual receives additional compensation for work performed in this capacity.
- The District exercises significant influence over operations of the entities. It is anticipated that the District will be the sole lessee of all facilities owned by the COP.

### **Accountability for Fiscal Matters**

- All major financing arrangements, contracts, and other transactions of the entities must have the consent of the governing board.
- Any deficits incurred by the COP will be reflected in the lease payments of the District. Any surpluses of the COPs revert to the District at the end of the lease period.
- It is anticipated that the District's lease payments will be the sole revenue source of the COPs.

### **Scope of Public Service**

- The entities were created for the sole purpose of financially assisting the District.
- The entities are a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The entities were formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion, the District intends to occupy all COP facilities under a lease-purchase agreement effective through the year 2036. At the end of the lease term, title of all COP property will pass to the District for no additional consideration.

### **Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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**Governmental Funds** Governmental Funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$2,529,847.

**Special Education Pass-Through Fund** This fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

**Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

**CFD Capital Fund** The CFD Capital Fund is used to account for capital projects financed by Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of resources for, and the retirement of, principal and interest on general long-term obligations.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund are used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

**Debt Service Fund for Blended Component Units** The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

**Crossover Debt Service Fund** The Crossover Debt Service Fund is used to account for the cash with fiscal agent for the payment of principal and interest for the crossover bonds issued by the entity under generally accepted accounting principles (GAAP).

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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**Internal Service Fund** Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance dental and vision program that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee capacity for others that cannot be used to support the District's own programs. Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds account for accumulation of resources for the payment of retiree benefits. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for the accumulation of resources for the payment of the principal and interest on the Special Tax Bonds issued by the Community Facilities Districts, Retiree Benefit Trust activities, and the student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial Statement of Activities presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function, and exclude fiduciary activity. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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**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 fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements, because they do not represent resources of the District.

**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year end: State apportionments, interest, certain grants, and other local sources.

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

### **Investments**

Investments held at June 30, 2019, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county pool are determined by the program sponsor.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental and expenses in the proprietary funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial Statement of Net Position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position.

### **Compensated Absences**

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for OPEB related items.

### **Pensions**

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

### **Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan fiduciary net position have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

**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 or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

### Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$32,767,398 of restricted net position.

### **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

### **Estimates**

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

### **Property Tax**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### **Change in Accounting Principles**

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement did not have a significant impact on the District's financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

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

The District has implemented the provisions of this Statement as of June 30, 2019.

### **New Accounting Pronouncements**

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Management is currently evaluating the impact of this Statement.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Management is currently evaluating the impact of this Statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Management is currently evaluating the impact of this Statement.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

Management is currently evaluating the impact of this Statement.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

Management is currently evaluating the impact of this Statement.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 172,910,689
Fiduciary funds	19,403,354
Total Deposits and Investments	<u>\$ 192,314,043</u>

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 6,450,382
Cash in revolving	28,244
Investments	185,835,417
Total Deposits and Investments	<u>\$ 192,314,043</u>

#### Policies and Practices

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

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**Option 3 – Weighted Average Maturity**

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Maturity Date/ Weighted-Average Days to Maturity</u>
U.S. Treasury Obligations	11,663,317	23
Riverside County Investment Pool	164,974,762	387
Total	<u>\$ 176,638,079</u>	

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Moody's Rating June 30, 2019</u>	<u>Reported Amount</u>
U.S. Treasury Obligations	AAA	AAA-mf	\$ 11,663,317
Riverside County Investment Pool	Not Required	Aaa-bf	164,974,762
Total Investments			<u>\$ 176,638,079</u>

**Trust**

The following investments are related to the Districts Fiduciary Fund Retiree Benefits Trust to be used for Net OPEB Liability and are not subject to the general authorization limitations as they relate to interest rate risk, credit risk, and concentration of credit risk required by the California Government Code.

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Maturity Date</u>
Mutual Fund - Fixed Income	\$ 5,407,319	7/1/2019
Mutual Fund - Domestic Equity	2,821,801	7/1/2019
Mutual Fund - International Equity	576,051	7/1/2019
Mutual Fund - Real Estate	392,167	7/1/2019
Total	<u>\$ 9,197,338</u>	

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance of \$2,473,688 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

### **NOTE 3 - FAIR VALUE MEASUREMENTS**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

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

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

The District's fair value measurements are as follows at June 30, 2019:

Investment Type	Reported Amount	Uncategorized
Riverside County Investment Pool	\$ 164,974,762	\$ 164,974,762

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Special Education Pass-Through Fund	Building Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 3,684,848	\$ 51,092,446	\$ -	\$ 84,980
State Government				
Categorical aid	1,529,946	4,360,034	-	169,167
Lottery	546,222	-	-	-
Local Government				
Interest	476,510	89,196	205,935	1,458,761
SELPA Pass-Through	1,954,243	1,307,153	-	-
Other local sources	2,843,512	-	-	-
Total	<u>\$ 11,035,281</u>	<u>\$ 56,848,829</u>	<u>\$ 205,935</u>	<u>\$ 1,712,908</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Funds
Federal Government			
Categorical aid	\$ -	\$ 54,862,274	\$ -
State Government			
Categorical aid	-	6,059,147	-
Lottery	-	546,222	-
Local Government			
Interest	1,054	2,231,456	-
SELPA Pass-Through	-	3,261,396	-
Other local sources	-	2,843,512	110
Total	<u>\$ 1,054</u>	<u>\$ 69,804,007</u>	<u>\$ 110</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 - CAPITAL ASSETS**

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

	Balance <u>July 1, 2018</u>	Additions	Deductions	Balance <u>June 30, 2019</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 96,370,157	\$ -	\$ -	\$ 96,370,157
Construction in process	40,960,136	17,607,253	-	58,567,389
Total Capital Assets Not Being Depreciated	<u>137,330,293</u>	<u>17,607,253</u>	<u>-</u>	<u>154,937,546</u>
Capital Assets Being Depreciated				
Land improvements	33,335,665	3,936,184	-	37,271,849
Buildings and improvements	483,741,782	4,590,912	-	488,332,694
Furniture and equipment	31,126,486	2,937,506	-	34,063,992
Total Capital Assets Being Depreciated	<u>548,203,933</u>	<u>11,464,602</u>	<u>-</u>	<u>559,668,535</u>
Less Accumulated Depreciation				
Land improvements	4,717,143	1,763,464	-	6,480,607
Buildings and improvements	128,633,279	10,983,803	-	139,617,082
Furniture and equipment	18,395,694	2,718,128	-	21,113,822
Total Accumulated Depreciation	<u>151,746,116</u>	<u>15,465,395</u>	<u>-</u>	<u>167,211,511</u>
Governmental Activities Capital Assets, Net	<u>\$ 533,788,110</u>	<u>\$ 13,606,460</u>	<u>\$ -</u>	<u>\$ 547,394,570</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 12,256,325
Food services	347,972
Data processing	773,269
All other administration	231,982
Plant services	1,855,847
Total Depreciation Expenses Governmental Activities	<u>\$ 15,465,395</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**NOTE 6 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,267,503	\$ 498,585	\$ 1,766,088
Special Education Pass-Through Fund	1,853,186	-	-	1,853,186
Building Fund	-	-	114,878	114,878
Non-Major Governmental Funds	209,806	-	-	209,806
<b>Total</b>	<b>\$ 2,062,992</b>	<b>\$ 1,267,503</b>	<b>\$ 613,463</b>	<b>\$ 3,943,958</b>

A balance of \$1,142,174 is due to the General Fund from the Special Education Pass-Through Fund for special education costs.

A balance of \$167,570 is due to the General Fund from the Child Development Non-Major Governmental Fund for indirect costs.

A balance of \$1,773,514 is due to the Special Education Pass-Through Fund from the General Fund for special education.

A balance of \$114,757 is due to the Building Fund from the County School Facilities Non-Major Governmental Fund for reimbursement of project costs.

A balance of \$127,599 is due to the Special Education Pass-Through Fund from the General Fund for interest.

A balance of \$286,569 is due to the General Fund from the Child Development Non-Major Governmental Fund for temporary loan.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**Operating Transfers**

Interfund transfers for the year ended June 30, 2019, consisted of the following:

The General Fund transferred to the Cafeteria Non-Major Governmental Fund for uncollectible student debt.	\$ 106,427
The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Components Units for debt service payments.	5,147,515
The County School Facilities Non-Major Governmental Fund transferred to the Building Fund for reimbursement of project costs.	114,757
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the Building Fund for reimbursement of project costs.	<u>24,728</u>
Total	<u><u>\$ 5,393,427</u></u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Special Education Pass-Through Fund	Building Fund	Non-Major Governmental Funds
Vendor payables	\$ 5,533,122	\$ -	\$ 7,831	\$ 1,245,241
State principal apportionment	3,743,342	-	-	-
Salaries and benefits	808,534	-	-	13,632
Capital outlay	1,821,934	-	1,589,930	958,790
SELPA Pass-Through	-	79,790,083	-	-
Total	<u>\$ 11,906,932</u>	<u>\$ 79,790,083</u>	<u>\$ 1,597,761</u>	<u>\$ 2,217,663</u>

	Internal Service Fund	Total Governmental Activities	Fiduciary Fund
Vendor payables	\$ 28,746	\$ 6,814,940	\$ 80
State principal apportionment	-	3,743,342	-
Salaries and benefits	-	822,166	-
Capital outlay	-	4,370,654	-
SELPA Pass-Through	-	79,790,083	-
Total	<u>\$ 28,746</u>	<u>\$ 95,541,185</u>	<u>\$ 80</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2019, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 150,881	\$ -	\$ 150,881
State categorical aid	152,634	44,400	197,034
Total	<u>\$ 303,515</u>	<u>\$ 44,400</u>	<u>\$ 347,915</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
General Obligation Bonds	\$ 146,734,625	\$10,682,488	\$25,565,000	\$ 131,852,113	\$ 1,820,000
Premium on Issuance	11,050,141	425,030	772,271	10,702,900	-
Certificates of Participation	65,560,000	32,145,000	40,095,000	57,610,000	2,280,000
Premium on Issuance	3,686,040	3,488,429	398,582	6,775,887	-
Discount on Issuance	(255,903)	-	(255,903)	-	-
Capital Leases	45,112	-	22,472	22,640	22,640
Supplemental Early Retirement Program	65,050	-	65,050	-	-
Net Other Postemployment Benefits (OPEB) Liability	9,557,155	2,402,692	4,874,526	7,085,321	-
	<u>\$ 236,442,220</u>	<u>\$49,143,639</u>	<u>\$71,536,998</u>	<u>\$ 214,048,861</u>	<u>\$ 4,122,640</u>

Payments on General Obligation Bonds are made in the Bond Interest and Redemption Fund. Payments on Certificates of Participation are made in the Debt Service Fund for Blended Component Units. Payments for Capital Lease Obligations are made in the General Fund. Payments for Early Retirement are made in the General Fund. Payments for Net OPEB Liability are made in the General Fund.

The District's outstanding certificates of participation of 57,610,000 are secured with collateral of an undeveloped lot zoned for commercial use.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2018	Issued/ Capital Appreciation	Redeemed	Bonds Outstanding June 30, 2019
08/27/08	08/01/33	3.00% - 5.50%	\$ 30,000,000	\$ 24,475,000	\$ -	\$ 24,475,000	\$ -
02/25/10	08/01/34	2.00% - 6.50%	13,436,948	2,894,706	152,305	450,000	2,597,011
03/20/13	08/01/42	2.00% - 3.75%	40,540,000	38,330,000	-	55,000	38,275,000
03/04/15	08/01/44	1.03% - 5.00%	38,949,540	40,439,919	530,183	195,000	40,775,102
09/22/16	08/01/45	3.00% - 4.00%	19,200,000	19,200,000	-	390,000	18,810,000
09/22/16	08/01/33	2.63% - 5.00%	21,395,000	21,395,000	-	-	21,395,000
01/30/19	08/01/46	3.00% - 5.00%	10,000,000	-	10,000,000	-	10,000,000
				<u>\$ 146,734,625</u>	<u>\$ 10,682,488</u>	<u>\$ 25,565,000</u>	<u>\$ 131,852,113</u>

**Debt Service Requirements to Maturity**

The bonds mature through 2047 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Accreted Interest to Maturity	Total
2020	\$ 1,819,472	\$ 5,037,964	\$ 528	\$ 6,857,964
2021	1,612,308	4,983,395	7,692	6,603,395
2022	1,834,962	4,932,745	20,038	6,787,745
2023	2,065,801	4,875,220	39,199	6,980,220
2024	2,367,594	4,800,520	12,406	7,180,520
2025-2029	16,637,421	22,094,601	362,579	39,094,601
2030-2034	24,555,380	18,504,082	4,014,620	47,074,082
2035-2039	21,981,623	14,945,126	5,978,377	42,905,126
2040-2044	36,522,552	9,460,219	3,077,448	49,060,219
2045-2047	22,455,000	986,609	-	23,441,609
Total	<u>\$ 131,852,113</u>	<u>\$ 90,620,481</u>	<u>\$ 13,512,887</u>	<u>\$ 235,985,481</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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In February 2010, the District issued \$11,960,000 in current interest bonds, \$404,804 in capital appreciation bonds, and \$1,072,144 in convertible capital appreciation bonds of the General Obligation Bonds, Election of 2008, and 2010 Series B. The capital appreciation bonds and convertible capital appreciation bonds accrete interest to a maturity value of \$1,700,000 and \$2,270,000 respectively. The bonds mature on August 1, 2018, August 1, 2032, and August 1, 2034, respectively, with interest rates ranging from 2.0 to 6.5 percent. The proceeds from the sale of the bonds were used to defease a portion of the outstanding 2008 Series A bonds and payoff the assessment payable.	\$ 2,597,011
In March 2013, the District issued \$40,540,000 of the Election 2012, General Obligation Bonds, Series A. The bonds mature on August 1, 2042, with interest rates ranging from 1.90 to 5.30 percent. The proceeds from the sale of the bonds were used to finance the construction of new schools, classrooms, and facilities, and to repair existing schools.	38,275,000
In March 2015, the District issued \$39,095,713 of the Election 2012, General Obligation Bonds, Series B. The bonds mature on August 1, 2045, with interest rates ranging from 1.03 to 5.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding bond anticipation notes and finance the construction of new schools, classrooms, and facilities, and to repair existing schools.	40,775,102
In June 2017, the District issued \$19,200,000 of the Election 2012, General Obligation Bonds, Series C. The bonds mature on August 1, 2045, with interest rates ranging from 3.00 to 4.00 percent. The proceeds from the sale of the bonds were used to finance the construction of new schools, classrooms, and facilities, and to repair existing schools.	18,810,000
In June 2017, the District issued \$21,395,000 of the Election 2016, General Obligation Bonds, Series A. The bonds mature on August 1, 2033, with interest rates ranging from 2.65 to 5.00 percent. The proceeds from the sale of the bonds were used to advance refund, on a crossover basis, a portion of the 2008 Series A bonds and the cost of issuance of the Series 2016 Refunding Bonds, maturing on August 1 in years 2019 through 2024, and years 2027, 2030, and 2033	21,395,000
In January 2019, the District issued \$10,000,000 of the Election 2012, General Obligation Bonds, Series D. The bonds mature on August 1, 2046, with interest rates ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to finance the construction of new schools, classrooms, and facilities, and to repair existing schools.	<u>10,000,000</u>
Subtotal bonds outstanding	<u>131,852,113</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

Unamortized premium on 2010 Series B bonds	\$ 391,136
Unamortized premium on 2013 Series A bonds	2,102,568
Unamortized premium on 2015 Series B bonds	2,721,498
Unamortized premium on 2016 Series C bonds	1,555,935
Unamortized premium on 2018 Series A bonds	3,506,733
Unamortized premium on 2019 Series D bonds	<u>425,030</u>
Subtotal unamortized premium on bonds	<u>10,702,900</u>
	<u><u>\$ 142,555,013</u></u>

**Bonded Debt**

The outstanding certificates of participation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Certificates Outstanding July 1, 2018	Issued	Redeemed	Certificates Outstanding June 30, 2019
09/29/09	03/01/36	2.00% - 5.23%	\$ 43,920,000	\$ 37,515,000	\$ -	\$ 37,515,000	\$ -
02/04/15	08/01/35	2.00% - 5.00%	30,090,000	28,045,000	-	1,060,000	26,985,000
12/04/18	03/01/36	3.63% - 5.00%	32,145,000	-	32,145,000	1,520,000	30,625,000
				<u>\$ 65,560,000</u>	<u>\$ 32,145,000</u>	<u>\$ 40,095,000</u>	<u>\$ 57,610,000</u>

**Debt Service Requirements to Maturity**

The certificates of participation mature through 2036 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2020	\$ 2,280,000	\$ 2,707,550	\$ 4,987,550
2021	2,385,000	2,603,600	4,988,600
2022	2,480,000	2,489,175	4,969,175
2023	2,605,000	2,363,675	4,968,675
2024	2,745,000	2,231,800	4,976,800
2025-2029	15,870,000	8,936,500	24,806,500
2030-2034	19,930,000	4,810,000	24,740,000
2035-2036	9,315,000	525,850	9,840,850
Total	<u>\$ 57,610,000</u>	<u>\$ 26,668,150</u>	<u>\$ 84,278,150</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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In February 2015, the District issued \$30,090,000 in 2015 Certificates of Participation Series A for the purpose of advance refunding the 2005 Series B Refunding COP. The Certificates of Participation mature on August 1, 2035, with interest rates ranging from 2.00 to 5.00 percent. The District applied a portion of the net proceeds of sale of the COPs to affect the refunding of the outstanding balances of the 2005 Series B Refunding COP financings and provided funding for capital improvement projects planned by the District. \$ 26,985,000

In December 2018, the District issued \$32,145,000 in 2009 Certificates of Participation Series A for the purpose of advance refunding the 2005 Series B Refunding COP. The Certificates of Participation mature on March 1, 2036, with interest rates ranging from 3.63 to 5.00 percent. The District applied a portion of the net proceeds of sale of the COPs to affect the refunding of the outstanding balances of the 2009 variable rate demand COP financings and provided funding for capital improvement projects planned by the District. 30,625,000

Subtotal certificates outstanding 57,610,000

Unamortized premium on 2015 Series A bonds 3,481,260

Unamortized premium on 2018 refunding bonds 3,294,627

Subtotal unamortized premium on certificates 6,775,887

\$ 64,385,887

### Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2018	\$ 49,713
Payments	<u>25,937</u>
Balance, June 30, 2019	<u><u>\$ 23,776</u></u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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The capital leases have minimum lease payments as follows:

Year Ending June 30, <u>2020</u>	Lease Payment <u>\$ 23,776</u>
Less: Amount Representing Interest	1,136
Present Value of Minimum Lease Payments	<u>\$ 22,640</u>

**Net Other Postemployment Benefits (OPEB) Liability**

For the fiscal year ended June 30, 2019, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>OPEB Expense</u>
District Plan	<u>\$ 7,085,321</u>	<u>\$ 257,435</u>	<u>\$ 1,960,403</u>	<u>\$ (2,471,834)</u>

The details of the plan are as follows:

**District OPEB Plan**

**Plan Administration.**

The Benefit Trust Company administers the Postemployment Benefits Plan (the Plan) — a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for the District.

Management of the Plan is vested in the Val Verde Unified School District Governing Board, which consists of five locally elected Plan members.

*Plan Membership*

At June 30, 2019, Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	71
Active employees	<u>1,507</u>
	<u>1,578</u>

*Benefits Provided*

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### *Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District and the Val Verde Teachers Association (VVTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CEA, CSEA, and the unrepresented groups. For fiscal year 2018-2019, the District contributed \$2,062,098 to the Plan, all of which was used for current premiums (approximately 100 percent of total premiums). Plan members are not required to contribute to the Plan.

### **Investments**

#### *Investment Policy*

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Governing Board by a majority vote of its members. It is the policy of the Val Verde Unified School District Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Governing Board's adopted asset allocation policy as of June 30, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Mutual Fund - Fixed Income	59%
Mutual Fund - Domestic Equity	31%
Mutual Fund - International Equity	6%
Mutual Fund - Real Estate	4%

#### *Rate of Return*

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 6.30 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **Net OPEB Liability of the District**

The components of the net OPEB liability of the District as of June 30, 2019, was as follows:

Total OPEB liability	\$ 16,282,659
Plan fiduciary net position	(9,197,338)
District's net OPEB liability	<u>\$ 7,085,321</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>56.49%</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### *Actuarial Assumptions*

The net OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	6.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	8.00 percent for 2019

Mortality rates were based on 2009 CalSTRS Mortality Table for Certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2018 to June 30, 2019.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019, (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Mutual Fund - Fixed Income	9.3%
Mutual Fund - Domestic Equity	4.8%
Mutual Fund - International Equity	8.8%
Mutual Fund - Real Estate	6.4%

### *Discount Rate*

The discount rate used to measure the total OPEB liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2018	\$ 16,692,941	\$ 7,135,786	\$ 9,557,155
Service cost	1,175,905	-	1,175,905
Interest	1,109,698	-	1,109,698
Contributions - employer	-	2,062,098	(2,062,098)
Net investment income	-	500,641	(500,641)
Changes of assumptions or other inputs	(2,186,712)	(43,270)	(2,143,442)
Benefit payments	(509,173)	(384,098)	(125,075)
Administrative expense	-	(73,819)	73,819
Net change in total OPEB liability	(410,282)	2,061,552	(2,471,834)
Balance at June 30, 2019	<u>\$ 16,282,659</u>	<u>\$ 9,197,338</u>	<u>\$ 7,085,321</u>

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	Net OPEB Liability
1% decrease (5.0%)	\$ 8,619,726
Current discount rate (6.0%)	7,085,321
1% increase (7.0%)	5,709,944

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

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

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (7.0%)	\$ 5,419,397
Current healthcare cost trend rates (8.0%)	7,085,321
1% increase (9.0%)	9,029,153

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$(2,471,834). At June 30, 2019, the District reported deferred outflows of resources for the difference between projected and actual earnings on the OPEB plan of \$257,435 and deferred inflows of resources for changes of assumptions of \$1,960,403.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 1,960,403
Net difference between projected and actual earnings on OPEB plan investments	257,435	-
Total	<u>\$ 257,435</u>	<u>\$ 1,960,403</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ (143,382)
2021	(143,382)
2022	(143,382)
2023	(217,655)
2024	(226,309)
Thereafter	(828,858)
	<u>\$ (1,702,968)</u>

**NOTE 10 - NON-OBLIGATORY DEBT**

Non-obligatory debt relates to debt issuances by the Community Facility Districts as authorized by the Mello-Roos Community Facilities Act of 1982 as amended and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders and may initiate foreclosure proceedings. Special assessment debt of \$42,805,000 as of June 30, 2019, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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**NOTE 11 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 3,243	\$ 28,243
Stores inventories	60,360	-	-	177,904	238,264
Total Nonspendable	<u>85,360</u>	<u>-</u>	<u>-</u>	<u>181,147</u>	<u>266,507</u>
<b>Restricted</b>					
Legally restricted programs	7,923,087	150,000	-	2,945,948	11,019,035
Capital projects	-	-	30,392,193	16,296,110	46,688,303
Debt services	-	-	-	9,682,245	9,682,245
Total Restricted	<u>7,923,087</u>	<u>150,000</u>	<u>30,392,193</u>	<u>28,924,303</u>	<u>67,389,583</u>
<b>Assigned</b>					
Other assignments	<u>2,529,847</u>	<u>-</u>	<u>-</u>	<u>1,484</u>	<u>2,531,331</u>
<b>Unassigned</b>					
Remaining unassigned	76,702,797	-	-	-	76,702,797
Total	<u>\$ 87,241,091</u>	<u>\$ 150,000</u>	<u>\$ 30,392,193</u>	<u>\$ 29,106,934</u>	<u>\$ 146,890,218</u>

**NOTE 12 - RISK MANAGEMENT**

**Description**

The District's risk management activities are recorded in the General Fund. Employee health and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in joint powers authorities (JPAs) for the various insurance coverage through the JPAs. Refer to Note 15 for additional information regarding the JPAs.

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 162,857,378	\$ 47,833,066	\$ 10,249,192	\$ 19,875,735
CalPERS	71,436,324	22,157,763	278,854	14,389,529
Total	<u>\$ 234,293,702</u>	<u>\$ 69,990,829</u>	<u>\$ 10,528,046</u>	<u>\$ 34,265,264</u>

The details of each plan are as follows:

#### **California State Teachers' Retirement System (CalSTRS)**

##### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

##### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

### Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$16,548,901.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 162,857,378
State's proportionate share of the net pension liability associated with the District	<u>93,243,465</u>
Total	<u><u>\$ 256,100,843</u></u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, was 0.1772 percent and 0.1694 percent, respectively, resulting in a net increase in the proportionate share of 0.0078 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$19,875,735. In addition, the District recognized pension expense and revenue of \$10,954,005 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 16,548,901	\$ -
Net change in proportionate share of net pension liability	5,478,819	1,612,561
Differences between projected and actual earnings on pension plan investments	-	6,271,038
Differences between expected and actual experience in the measurement of the total pension liability	505,014	2,365,593
Changes of assumptions	<u>25,300,332</u>	<u>-</u>
Total	<u><u>\$ 47,833,066</u></u>	<u><u>\$ 10,249,192</u></u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,361,619
2021	(988,027)
2022	(5,261,158)
2023	(1,383,472)
Total	<u>\$ (6,271,038)</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 5,053,631
2021	5,053,631
2022	5,053,630
2023	5,324,795
2024	5,962,094
Thereafter	858,230
Total	<u>\$ 27,306,011</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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 its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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 actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption 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 for the year ended June 30, 2018, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term 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%

**Discount Rate**

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 238,567,001
Current discount rate (7.10%)	162,857,378
1% increase (8.10%)	100,086,754

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$7,331,372.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$71,436,324. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018, and June 30, 2017, was 0.2679 percent and 0.2528 percent, respectively, resulting in a net increase in the proportionate share of 0.0151 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$14,389,529. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,331,372	\$ -
Net change in proportionate share of net pension liability	2,424,748	278,854
Difference between projected and actual earnings on pension plan investments	585,937	-
Differences between expected and actual experience in the measurement of the total pension liability	4,683,104	-
Changes of assumptions	7,132,602	-
Total	<u>\$ 22,157,763</u>	<u>\$ 278,854</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,131,185
2021	509,654
2022	(1,633,254)
2024	(421,648)
Total	<u>\$ 585,937</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 5,834,842
2021	5,866,320
2022	2,260,438
Total	<u>\$ 13,961,600</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 104,007,871
Current discount rate (7.15%)	71,436,324
1% increase (8.15%)	44,413,562

### On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$8,605,793 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–19 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

**Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

**Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2019.

**Construction Commitments**

As of June 30, 2019, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Summer projects	\$ 1,073,032	2019-2020
Prop 39 Project	1,057,424	2019-2020
District Office Renovation - Phase 1	14,154,824	2019-2020
Rancho Verde High School Modernization	21,643,840	2021-2022
	<u>\$ 37,929,121</u>	

**NOTE 15 - PARTICIPATION IN JOINT POWER AUTHORITIES**

The District is a member of the Riverside Schools' Risk Management Authority (RSRMA), the Riverside County Employer/Employee Partnership for Benefits (REEP), the Riverside Schools Insurance Authority (RSIA), and the Self-Insured Schools of California (SISC) joint powers authorities (JPAs). The relationships between the District and the JPAs are such that they are not a component unit of the District for financial reporting purposes.

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

The District has appointed one board member to the governing board of each JPA.

# **VAL VERDE UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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During the year ended June 30, 2019, the District made payments of \$1,214,776, \$3,787,037, \$9,082,051, and \$13,030,537 to RSIA, RSRMA, REEP, and SISC, respectively, for its property liability, workers' compensation, and health coverage.



**REQUIRED SUPPLEMENTARY INFORMATION**

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 213,123,621	\$ 213,689,434	\$ 213,708,425	\$ 18,991
Federal sources	13,432,578	14,207,853	13,978,519	(229,334)
Other State sources	23,102,569	22,762,735	32,018,679	9,255,944
Other local sources	32,064,497	38,632,702	32,596,267	(6,036,435)
<b>Total Revenues</b> <sup>1</sup>	<u>281,723,265</u>	<u>289,292,724</u>	<u>292,301,890</u>	<u>3,009,166</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	104,305,233	103,416,669	103,449,155	(32,486)
Classified salaries	39,495,766	39,071,384	38,424,012	647,372
Employee benefits	59,960,775	59,422,737	67,007,471	(7,584,734)
Books and supplies	17,193,797	13,189,951	11,076,330	2,113,621
Services and operating expenditures	41,161,050	48,126,172	41,901,778	6,224,394
Capital outlay	21,979,142	13,699,100	14,959,120	(1,260,020)
Other outgo	(633,750)	(481,212)	(446,129)	(35,083)
Debt service - principal	2,452,473	2,602,473	22,472	2,580,001
Debt service - interest	3,127,233	2,570,980	3,466	2,567,514
<b>Total Expenditures</b> <sup>1</sup>	<u>289,041,719</u>	<u>281,618,254</u>	<u>276,397,675</u>	<u>5,220,579</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(7,318,454)</u>	<u>7,674,470</u>	<u>15,904,215</u>	<u>8,229,745</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,500,000	1,500,000	-	(1,500,000)
Transfers out	(115,782)	(134,975)	(5,253,942)	(5,118,967)
<b>Net Financing Sources (Uses)</b>	<u>1,384,218</u>	<u>1,365,025</u>	<u>(5,253,942)</u>	<u>(6,618,967)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(5,934,236)</u>	<u>9,039,495</u>	<u>10,650,273</u>	<u>1,610,778</u>
<b>Fund Balance - Beginning</b>	<u>76,590,818</u>	<u>76,590,818</u>	<u>76,590,818</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 70,656,582</u>	<u>\$ 85,630,313</u>	<u>\$ 87,241,091</u>	<u>\$ 1,610,778</u>

<sup>1</sup> Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, but is not included in the original and final General Fund budgets. On behalf payments of \$8,681,922 related to Senate Bill 90 are included in actual revenues and expenditures, but have not been included in the budget amounts.

See accompanying note to required supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION LOCAL PLAN AREA  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
	<b>REVENUES</b>			
Local Control Funding Formula	\$ 30,011,329	\$ 31,499,636	\$ 34,799,035	\$ 3,299,399
Federal sources	50,561,008	50,515,274	50,854,576	339,302
Other State sources	120,290,009	117,886,159	123,853,693	5,967,534
Other local sources	-	57,522	385,500	327,978
<b>Total Revenues</b>	<b>200,862,346</b>	<b>199,958,591</b>	<b>209,892,804</b>	<b>9,934,213</b>
<b>EXPENDITURES</b>				
Current				
Other outgo	200,862,346	200,122,376	209,892,804	(9,770,428)
<b>NET CHANGE IN FUND BALANCE</b>	-	(163,785)	-	163,785
<b>Fund Balance - Beginning</b>	150,000	150,000	150,000	-
<b>Fund Balance - Ending</b>	<b>\$ 150,000</b>	<b>\$ (13,785)</b>	<b>\$ 150,000</b>	<b>\$ 163,785</b>

See accompanying note to required supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY  
AND RELATED RATIOS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>			
Service cost	\$ 1,175,905	\$ 1,144,433	\$ 1,113,803
Interest	1,109,698	970,003	873,306
Changes of assumptions	(2,186,712)	-	-
Benefit payments	(509,173)	(492,318)	(473,383)
<b>Net changes in total OPEB liability</b>	<b>(410,282)</b>	<b>1,622,118</b>	<b>1,513,726</b>
<b>Total OPEB Liability - beginning</b>	<b>16,692,941</b>	<b>15,070,823</b>	<b>13,557,097</b>
<b>Total OPEB Liability - ending (a)</b>	<b>\$ 16,282,659</b>	<b>\$ 16,692,941</b>	<b>\$ 15,070,823</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - employer	\$ 2,062,098	\$ 492,318	\$ 1,883,383
Net investment income	500,641	(56,797)	562,864
Difference between projected and actual earnings	(43,270)	428,162	-
Benefit payments	(384,098)	(492,318)	(473,383)
Administrative expense	(73,819)	(63,595)	(55,575)
<b>Net change in plan fiduciary net position</b>	<b>2,061,552</b>	<b>307,770</b>	<b>1,917,289</b>
<b>Plan fiduciary net position - beginning</b>	<b>7,135,786</b>	<b>6,828,016</b>	<b>4,910,727</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>9,197,338</b>	<b>7,135,786</b>	<b>6,828,016</b>
<b>District's net OPEB liability - ending (a) - (b)</b>	<b>\$ 7,085,321</b>	<b>\$ 9,557,155</b>	<b>\$ 8,242,807</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	<b>56.49%</b>	<b>42.75%</b>	<b>45.31%</b>
<b>Covered payroll</b>	<b>\$ 148,507,817</b>	<b>\$ 145,586,366</b>	<b>\$ 142,743,105</b>
<b>District's net OPEB liability as a percentage</b>	<b>4.77%</b>	<b>6.56%</b>	<b>5.77%</b>

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

See accompanying note to required supplementary information.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OPEB FOR THE YEAR ENDED JUNE 30, 2019

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ -	\$ 492,318	\$ 473,383
Contributions in relations to the actuarially determined contribution	384,098	778,000	1,883,383
Contribution deficiency (excess)	<u>\$ (384,098)</u>	<u>\$ (285,682)</u>	<u>\$ (1,410,000)</u>
Covered payroll	<u>\$ 148,507,817</u>	<u>\$ 145,586,366</u>	<u>\$ 142,743,105</u>
Contribution as a percentage of	<u>0.26%</u>	<u>0.53%</u>	<u>1.32%</u>

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

See accompanying note to required supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OPEB INVESTMENT RETURNS  
FOR THE YEAR ENDED JUNE 30, 2019**

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	<u>6.00%</u>	<u>6.30%</u>	<u>6.30%</u>

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

See accompanying note to required supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>			
District's proportion of the net pension liability	<u>0.1772%</u>	<u>0.1694%</u>	<u>0.1699%</u>
District's proportionate share of the net pension liability	\$ 162,857,378	\$ 156,651,389	\$ 137,427,884
State's proportionate share of the net pension liability associated with the District	<u>93,243,465</u>	<u>92,673,638</u>	<u>78,235,243</u>
Total	<u>\$ 256,100,843</u>	<u>\$ 249,325,027</u>	<u>\$ 215,663,127</u>
District's covered payroll	<u>\$ 95,369,023</u>	<u>\$ 90,822,401</u>	<u>\$ 83,099,646</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>170.77%</u>	<u>172.48%</u>	<u>165.38%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>	<u>70%</u>
<b>CalPERS</b>			
District's proportion of the net pension liability	<u>0.2679%</u>	<u>0.2528%</u>	<u>0.2495%</u>
District's proportionate share of the net pension liability	<u>\$ 71,436,324</u>	<u>\$ 60,349,162</u>	<u>\$ 49,270,192</u>
District's covered payroll	<u>\$ 35,434,756</u>	<u>\$ 33,327,311</u>	<u>\$ 44,514,333</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>201.60%</u>	<u>181.08%</u>	<u>110.68%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
<u>0.1731%</u>	<u>0.1725%</u>
\$ 116,506,476	\$ 100,779,154
<u>61,619,082</u>	<u>60,854,805</u>
<u>\$ 178,125,558</u>	<u>\$ 161,633,959</u>
<u>\$ 79,989,223</u>	<u>\$ 86,097,491</u>
<u>145.65%</u>	<u>128.84%</u>
<u>74%</u>	<u>77%</u>
<u>0.2574%</u>	<u>0.2463%</u>
<u>\$ 37,935,443</u>	<u>\$ 28,852,559</u>
<u>\$ 28,354,860</u>	<u>\$ 29,167,689</u>
<u>133.79%</u>	<u>105.50%</u>
<u>79%</u>	<u>83%</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>			
Contractually required contribution	\$ 16,548,901	\$ 13,761,750	\$ 11,425,458
Contributions in relation to the contractually required contribution	<u>16,548,901</u>	<u>13,761,750</u>	<u>11,425,458</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 101,651,726</u>	 <u>\$ 95,369,023</u>	 <u>\$ 90,822,401</u>
 Contributions as a percentage of covered payroll	 <u>16.28%</u>	 <u>14.43%</u>	 <u>12.58%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 7,331,372	\$ 5,503,372	\$ 4,628,497
Contributions in relation to the contractually required contribution	<u>7,331,372</u>	<u>5,503,372</u>	<u>4,628,497</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 40,590,034</u>	 <u>\$ 35,434,756</u>	 <u>\$ 33,327,311</u>
 Contributions as a percentage of covered payroll	 <u>18.06%</u>	 <u>15.53%</u>	 <u>13.89%</u>

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

See accompanying note to required supplementary information.

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<u>2016</u>	<u>2015</u>
\$ 8,916,592	\$ 7,103,043
<u>8,916,592</u>	<u>7,103,043</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 83,099,646</u>	<u>\$ 79,989,223</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 5,273,613	\$ 3,337,367
<u>5,273,613</u>	<u>3,337,367</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 44,514,333</u>	<u>\$ 28,354,860</u>
<u>11.85%</u>	<u>11.77%</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Budgetary Comparison Schedules

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

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

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2019, the District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through Fund	\$ 200,122,376	\$ 209,892,804	\$ 9,770,428

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

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

*Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuation for postemployment benefits other than pension.

*Changes of Assumptions* – There plan discount rate assumption was changed from 6.30 percent to 6.00 percent since the previous valuation for other postemployment benefits.

#### Schedule of District Contributions for OPEB

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### **Schedule of OPEB Investment Returns**

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

### **Schedule of the District's Proportionate Share of the Net Pension Liability**

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

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

*Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

### **Schedule of District Contributions**

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



**SUPPLEMENTARY INFORMATION**

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch	10.555	13523	\$ 7,053,176	\$ -
Summer Food Service Program	10.559	13004	2,128,964	-
Food Distribution	10.555	13524	894,801	-
Child Nutrition Cluster Total			<u>10,076,941</u>	<u>-</u>
Child and Adult Care Food Program	10.558	13393	722,112	-
Total U.S. Department of Agriculture			<u>10,799,053</u>	<u>-</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed through CDE:				
Vocational Educational Grant				
Carl Perkins	84.048	14894	174,125	-
Elementary and Secondary Education Act				
Title I, Part A	84.010	14329	5,892,021	-
Title II, Part A	84.367	14341	529,201	-
Title III - English Learner Student Program	84.365	14346	278,195	-
Student Support and Academic Enrichment Program				
Title IV, Part A - Grants	84.424	15396	384,896	-
Title IV, Part A - Grant Program	84.424	15391	556,585	-
Passed through Riverside County Special Education Local Plan Area				
Special Education Cluster				
Local Assistance - Basic	84.027	13379	49,726,757	45,870,939
Preschool Grants	84.173	13430	965,174	914,570
Mental Health Allocation Plan	84.027A	15197	4,678,029	3,897,627
Preschool Staff Development	84.173A	13431	9,662	9,155
Alternate Dispute Resolution	84.173A	13007	11,791	-
Special Education Cluster Total			<u>55,391,413</u>	<u>50,692,291</u>
Special Education Early intervention Grants	[1]	24314	162,285	162,285
Education for Homeless Children and Youths Grants	84.196	14332	2,877	-
Total U.S. Department of Education			<u>63,371,598</u>	<u>50,854,576</u>

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)				
Passed through California HHS:				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	\$ 677,504	\$ -
Medical Administrative Activities	93.778	10060	668,752	-
Total U.S. Department of Health and Human Services			<u>1,346,256</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 75,516,907</u>	<u>\$ 50,854,576</u>

[1] Catalog number not available

See accompanying note to supplementary information.

# VAL VERDE UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

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### ORGANIZATION

The Val Verde Unified School District was unified on July 1, 1991, and consists of an area comprising approximately 57 square miles. The District operates twelve elementary schools, four middle schools, two high schools, one opportunity school, one independent study program, and a continuation high school. There were no boundary changes during the year.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Julio Gonzalez	President	2022
Matthew Serafin	Vice President	2020
Marla Kirkland	Clerk	2020
Ty Liddell	Member	2022
Marisol Roque	Member	2022

### ADMINISTRATION

Michael R. McCormick	District Superintendent
Stacy Coleman	Deputy Superintendent, Business Services
Mark LeNoir	Assistant Superintendent, Education Services
Juan Cabral	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	5,612.96	5,614.21
Fourth through sixth	4,309.78	4,303.91
Seventh and eighth	3,165.61	3,162.82
Ninth through twelfth	6,272.54	6,231.96
Total Regular ADA	<u>19,360.89</u>	<u>19,312.90</u>
Extended Year Special Education		
Transitional kindergarten through third	0.87	0.87
Fourth through sixth	0.50	0.50
Seventh and eighth	0.86	0.86
Ninth through twelfth	1.41	1.41
Total Extended Year Special Education	<u>3.64</u>	<u>3.64</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.98	3.57
Fourth through sixth	4.96	4.38
Seventh and eighth	5.25	5.81
Ninth through twelfth	8.46	8.39
Total Special Education, Nonpublic, Nonsectarian Schools	<u>21.65</u>	<u>22.15</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.22	0.22
Fourth through sixth	0.61	0.61
Seventh and eighth	1.03	1.03
Ninth through twelfth	1.62	1.62
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>3.48</u>	<u>3.48</u>
Total ADA	<u>19,389.66</u>	<u>19,342.17</u>

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2019**

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Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	40,580	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,335	180	N/A	Complied
Grade 2		54,335	180	N/A	Complied
Grade 3		54,335	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		55,480	180	N/A	Complied
Grade 5		55,480	180	N/A	Complied
Grade 6		59,700	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,700	180	N/A	Complied
Grade 8		59,700	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,246	180	N/A	Complied
Grade 10		65,246	180	N/A	Complied
Grade 11		65,246	180	N/A	Complied
Grade 12		65,246	180	N/A	Complied

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget)			
	2020 <sup>1</sup>	2019	2018	2017
<b>GENERAL FUND <sup>3</sup></b>				
Revenues	\$ 272,194,821	\$ 292,301,890	\$ 261,976,173	\$ 249,725,523
Other sources and transfers in	2,531,054	-	12,695	-
Total Revenues and Other Sources	274,725,875	292,301,890	261,988,868	249,725,523
Expenditures	276,376,805	276,397,675	242,256,375	233,308,556
Other uses and transfers out	50,432	5,253,942	5,613,392	5,815,715
Total Expenditures and Other Uses	276,427,237	281,651,617	247,869,767	239,124,271
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ (1,701,362)</b>	<b>\$ 10,650,273</b>	<b>\$ 14,119,101</b>	<b>\$ 10,601,252</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 85,539,729</b>	<b>\$ 87,241,091</b>	<b>\$ 76,590,818</b>	<b>\$ 62,471,717</b>
<b>AVAILABLE RESERVES <sup>2</sup></b>	<b>\$ 63,290,231</b>	<b>\$ 76,702,797</b>	<b>\$ 62,349,571</b>	<b>\$ 41,417,291</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>22.9%</b>	<b>28.1%</b>	<b>25.2%</b>	<b>17.3%</b>
<b>LONG-TERM OBLIGATIONS</b>	<b>N/A</b>	<b>\$ 214,048,861</b>	<b>\$ 236,442,220</b>	<b>\$ 239,537,543</b>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>19,397</b>	<b>19,390</b>	<b>19,435</b>	<b>19,238</b>

The General Fund balance has increased by \$24,769,374 over the past two years. The fiscal year 2019-2020 budget projects a further decrease of \$1,701,362 (1.95 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have decreased by \$25,488,682 over the past two years.

Average daily attendance has increased by 152 over the past two years. Additional increase of seven ADA is anticipated during fiscal year 2019-2020.

<sup>1</sup> Budget 2020 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

<sup>3</sup> Additional on behalf payments related to Senate Bill 90 (Chapter 33, Statutes of 2019) of \$8,681,922 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 193,465	\$ 2,689,098	\$ 9,619,107	\$ 2,494,293
Receivables	255,231	1,378,988	62,009	16,680
Due from other funds	209,806	-	-	-
Stores inventories	-	177,904	-	-
<b>Total Assets</b>	<u>\$ 658,502</u>	<u>\$ 4,245,990</u>	<u>\$ 9,681,116</u>	<u>\$ 2,510,973</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 21,439	\$ 1,214,973	\$ 48,045	\$ 933,206
Due to other funds	496,585	-	-	114,757
Unearned revenue	44,400	-	-	-
<b>Total Liabilities</b>	<u>562,424</u>	<u>1,214,973</u>	<u>48,045</u>	<u>1,047,963</u>
<b>Fund Balances:</b>				
Nonspendable	-	181,147	-	-
Restricted	96,078	2,849,870	9,633,071	1,463,010
Assigned	-	-	-	-
<b>Total Fund Balances</b>	<u>96,078</u>	<u>3,031,017</u>	<u>9,633,071</u>	<u>1,463,010</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 658,502</u>	<u>\$ 4,245,990</u>	<u>\$ 9,681,116</u>	<u>\$ 2,510,973</u>

See accompanying note to supplementary information.

<b>CFD Capital Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Crossover Debt Service Fund</b>	<b>Non-Major Governmental Funds</b>
\$ 5,200,029	\$ 3,605	\$ 9,664,049	\$ 18,196	\$ -	\$ 29,881,842
-	-	-	-	-	1,712,908
-	-	-	-	-	209,806
-	-	-	-	-	177,904
<u>\$ 5,200,029</u>	<u>\$ 3,605</u>	<u>\$ 9,664,049</u>	<u>\$ 18,196</u>	<u>\$ -</u>	<u>\$ 31,982,460</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,217,663
-	2,121	-	-	-	613,463
-	-	-	-	-	44,400
<u>-</u>	<u>2,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,875,526</u>
-	-	-	-	-	181,147
5,200,029	-	9,664,049	18,196	-	28,924,303
-	1,484	-	-	-	1,484
<u>5,200,029</u>	<u>1,484</u>	<u>9,664,049</u>	<u>18,196</u>	<u>-</u>	<u>29,106,934</u>
<u>\$ 5,200,029</u>	<u>\$ 3,605</u>	<u>\$ 9,664,049</u>	<u>\$ 18,196</u>	<u>\$ -</u>	<u>\$ 31,982,460</u>

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
<b>REVENUES</b>				
Federal sources	\$ 722,112	\$ 10,076,941	\$ -	\$ -
Other State sources	2,715,778	718,242	-	-
Other local sources	3,335	1,272,809	2,251,009	184,675
<b>Total Revenues</b>	<u>3,441,225</u>	<u>12,067,992</u>	<u>2,251,009</u>	<u>184,675</u>
<b>EXPENDITURES</b>				
Current				
Instruction	1,611,098	-	-	-
Instruction-related activities:				
Supervision of instruction	555	-	-	-
School site administration	476,745	-	-	-
Pupil services:				
Food services	657,510	11,999,374	-	-
All other pupil services	139,617	-	-	-
Administration:				
All other administration	207,289	645,890	92,178	-
Plant services	332,361	-	-	-
Facility acquisition and construction	-	4,890	3,235,448	4,020,680
Other outgo	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<u>3,425,175</u>	<u>12,650,154</u>	<u>3,327,626</u>	<u>4,020,680</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>16,050</u>	<u>(582,162)</u>	<u>(1,076,617)</u>	<u>(3,836,005)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	106,427	-	-
Other sources - proceeds from premium on bond issuance	-	-	-	-
Other sources - proceeds from CFD issuance	-	-	-	-
Other sources - proceeds from COP issuance	-	-	-	-
Other sources - proceeds from premium on COP issuance	-	-	-	-
Transfers out	-	-	-	(114,757)
Other uses - certificates of participation refunding	-	-	-	-
Other uses - crossover bond refunding	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<u>-</u>	<u>106,427</u>	<u>-</u>	<u>(114,757)</u>
<b>NET CHANGE IN FUND BALANCES</b>	16,050	(475,735)	(1,076,617)	(3,950,762)
<b>Fund Balances - Beginning</b>	80,028	3,506,752	10,709,688	5,413,772
<b>Fund Balances - Ending</b>	<u>\$ 96,078</u>	<u>\$ 3,031,017</u>	<u>\$ 9,633,071</u>	<u>\$ 1,463,010</u>

See accompanying note to supplementary information.

<b>CFD Capital Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund for Blended Component Units</b>	<b>Crossover Debt Service Fund</b>	<b>Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	10,799,053
-	-	37,610	-	-	3,471,630
64,114	18,672	6,461,611	212,735	95,168	10,564,128
<u>64,114</u>	<u>18,672</u>	<u>6,499,221</u>	<u>212,735</u>	<u>95,168</u>	<u>24,834,811</u>
-	-	-	-	-	1,611,098
-	-	-	-	-	555
-	-	-	-	-	476,745
-	-	-	-	-	12,656,884
-	-	-	-	-	139,617
-	-	-	-	-	945,357
-	-	-	-	-	332,361
-	-	-	-	-	7,261,018
17,188	-	-	260,862	457,109	735,159
-	-	1,090,000	2,580,000	-	3,670,000
-	-	5,789,975	3,847,945	-	9,637,920
<u>17,188</u>	<u>-</u>	<u>6,879,975</u>	<u>6,688,807</u>	<u>457,109</u>	<u>37,466,714</u>
<u>46,926</u>	<u>18,672</u>	<u>(380,754)</u>	<u>(6,476,072)</u>	<u>(361,941)</u>	<u>(12,631,903)</u>
-	-	-	5,147,515	-	5,253,942
-	-	425,030	-	-	425,030
3,885,294	-	-	-	-	3,885,294
-	-	-	32,145,000	-	32,145,000
-	-	-	3,488,429	-	3,488,429
-	(24,728)	-	-	-	(139,485)
-	-	-	(37,515,000)	-	(37,515,000)
-	-	-	-	(23,560,000)	(23,560,000)
<u>3,885,294</u>	<u>(24,728)</u>	<u>425,030</u>	<u>3,265,944</u>	<u>(23,560,000)</u>	<u>(16,016,790)</u>
3,932,220	(6,056)	44,276	(3,210,128)	(23,921,941)	(28,648,693)
1,267,809	7,540	9,619,773	3,228,324	23,921,941	57,755,627
<u>\$ 5,200,029</u>	<u>\$ 1,484</u>	<u>\$ 9,664,049</u>	<u>\$ 18,196</u>	<u>\$ -</u>	<u>\$ 29,106,934</u>

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 75,632,148
Medi-Cal Billing Option	93.778	<u>(115,241)</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 75,516,907</u></u>

#### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated members of the governing board, and members of the administration.

#### Schedule of Average Daily Attendance (ADA)

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

# VAL VERDE UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.



## **INDEPENDENT AUDITOR'S REPORTS**



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board  
Val Verde Unified School District  
Perris, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Val Verde Unified 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 Val Verde Unified School 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 Val Verde Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Val Verde Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Val Verde Unified School District's internal control.

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

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 Val Verde Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California  
December 5, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board  
Val Verde Unified School District  
Perris, California

**Report on Compliance for Each Major Federal Program**

We have audited Val Verde Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Val Verde Unified School District's major Federal programs for the year ended June 30, 2019. Val Verde Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, Val Verde Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

### **Report on Internal Control over Compliance**

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

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

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

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

Eric Sully LLP

Rancho Cucamonga, California  
December 5, 2019



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Val Verde Unified School District  
Perris, California

### **Report on State Compliance**

We have audited Val Verde Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Val Verde Unified School District's State government programs as noted below for the year ended June 30, 2019.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

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

Our responsibility is to express an opinion on compliance of each of the Val Verde Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Val Verde Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Val Verde Unified School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, Val Verde Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Val Verde Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because ADA was below the threshold required for testing.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

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

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform procedures related to the Independent Study-Course Based Program.

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

*Eide Sully LLP*

Rancho Cucamonga, California  
December 5, 2019



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,265,507</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**VAL VERDE UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

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There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

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**APPENDIX C**

**PROPOSED FORMS OF OPINIONS OF BOND COUNSEL**

*Upon issuance and delivery of the Series 2020A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2020A Bonds in substantially the following form:*

[Date of Delivery]

Val Verde Unified School District  
Perris, California

Val Verde Unified School District  
(Riverside County, California)  
General Obligation Bonds, 2020 Election, Series 2020A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Val Verde Unified School District (the “District”), which is located in the County of Riverside (the “County”), in connection with the issuance by the District of \$\_\_\_\_\_ aggregate principal amount of bonds designated as “Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2020 Election, Series 2020A” (the “Series 2020A Bonds”), representing part of an issue in the aggregate principal amount of \$192,000,000 authorized at an election held in the District on March 3, 2020. The Series 2020A Bonds are issued under and pursuant to a resolution of the Board of Education of the District adopted on June 2, 2020 (the “Resolution”).

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2020A Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2020A Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2020A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and

agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2020A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2020A Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2020, or other offering material relating to the Series 2020A Bonds and express no opinion with respect thereto.

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

1. The Series 2020A Bonds constitute valid and binding obligations of the District.
2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2020A Bonds and the interest thereon.
4. Interest on the Series 2020A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2020A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2020A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

*Upon issuance and delivery of the Series 2020E Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series 2020E Bonds in substantially the following form:*

[Date of Delivery]

Val Verde Unified School District  
Perris, California

Val Verde Unified School District  
(Riverside County, California)  
General Obligation Bonds, 2012 Election, Series 2020E  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Val Verde Unified School District (the “District”), which is located in the County of Riverside (the “County”), in connection with the issuance by the District of \$\_\_\_\_\_ aggregate principal amount of bonds designated as “Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2012 Election, Series 2020E” (the “Series 2020E Bonds”), representing part of an issue in the aggregate principal amount of \$178,000,000 authorized at an election held in the District on June 5, 2012. The Series 2020E Bonds are issued under and pursuant to a resolution of the Board of Education of the District adopted on June 2, 2020 (the “Resolution”).

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2020E Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2020E Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2020E Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series 2020E Bonds to be included in gross income for federal income tax

purposes. We call attention to the fact that the rights and obligations under the Series 2020E Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2020, or other offering material relating to the Series 2020E Bonds and express no opinion with respect thereto.

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

1. The Series 2020E Bonds constitute valid and binding obligations of the District.
2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series 2020E Bonds and the interest thereon.
4. Interest on the Series 2020E Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2020E Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2020E Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

*Upon issuance and delivery of the Refunding Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Refunding Bonds in substantially the following form:*

[Date of Delivery]

Val Verde Unified School District  
Perris, California

Val Verde Unified School District  
(Riverside County, California)  
2020 General Obligation Refunding Bonds (Federally Taxable)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Val Verde Unified School District (the “District”), which is located in the County of Riverside (the “County”), in connection with the issuance by the District of \$\_\_\_\_\_ aggregate principal amount of Val Verde Unified School District (Riverside County, California) 2020 General Obligation Refunding Bonds (Federally Taxable) (the “Refunding Bonds”), pursuant to a resolution of the Board of Education of the District adopted on June 2, 2020 (the “Resolution”). Capitalized undefined terms used herein have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Refunding Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Refunding Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Refunding Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Refunding Bonds and the Resolution and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion

with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated \_\_\_\_\_, 2020, or other offering material relating to the Refunding 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 Refunding Bonds constitute valid and binding obligations of the District.
2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.
3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Refunding Bonds and the interest thereon.
4. Interest on the Refunding Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Refunding Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

## APPENDIX D

### FORMS OF CONTINUING DISCLOSURE CERTIFICATES

#### CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the Val Verde Unified School District (the “District”) in connection with the issuance of \$\_\_\_\_\_ aggregate principal amount of Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2020 Election, Series 2020A (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on June 2, 2020 (the “Resolution”). The District covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean, for the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement, dated \_\_\_\_\_, 2020 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

**Section 3. Provision of Annual Reports.** (a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District’s fiscal year (which due date shall be February 25 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2019-20 Fiscal Year (which is due not later than February 25, 2021), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**Section 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year, or a summary thereof.

(ii) The average daily attendance in District schools on an aggregate basis for the last completed fiscal year.

(iii) The District's outstanding debt.

(iv) Information regarding total assessed valuation (secured, unsecured and total) of taxable properties within the District for the then current fiscal year as shown on the most recent equalized assessment role, if and to the extent made available by the County of Riverside (the "County"). If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(v) Information regarding twenty taxpayers with the greatest combined ownership of taxable property in the District for the then current fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(vi) Information regarding total secured tax charges and delinquencies on taxable properties within the District for the last completed fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Significant Events.** (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

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

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

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

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

(vi) tender offers;

(vii) defeasances;

- (viii) rating changes;
- (ix) bankruptcy, insolvency, receivership or similar event of the District; or
- (x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) unless described in paragraph 5(a)(v), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (ii) modifications to rights of Bond Holders;
- (iii) Bond calls;
- (iv) release, substitution, or sale of property securing repayment of the Bonds;
- (v) non-payment related defaults;
- (vi) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or
- (viii) incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Bond holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**Section 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**Section 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative

explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**Section 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2020

**VAL VERDE UNIFIED SCHOOL  
DISTRICT**

By: \_\_\_\_\_

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES,  
INC. DOING BUSINESS AS APPLIED BEST  
PRACTICES,  
as Dissemination Agent**

By: \_\_\_\_\_  
Managing Principal

**EXHIBIT A**

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: VAL VERDE UNIFIED SCHOOL DISTRICT

Name of Issue: Val Verde Unified School District (Riverside County, California) General  
Obligation Bonds, 2020 Election, Series 2020A

Date of Issuance: \_\_\_\_\_, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated \_\_\_\_\_, 2020. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**VAL VERDE UNIFIED SCHOOL DISTRICT**

## CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the Val Verde Unified School District (the “District”) in connection with the issuance of \$ \_\_\_\_\_ aggregate principal amount of Val Verde Unified School District (Riverside County, California) General Obligation Bonds, 2012 Election, Series 2020E (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on June 2, 2020 (the “Resolution”). The District covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean, for the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement, dated \_\_\_\_\_, 2020 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

**Section 3. Provision of Annual Reports.** (a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District’s fiscal year (which due date shall be February 25 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2019-20 Fiscal Year (which is due not later than February 25, 2021), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**Section 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year, or a summary thereof.

(ii) The average daily attendance in District schools on an aggregate basis for the last completed fiscal year.

(iii) The District's outstanding debt.

(iv) Information regarding total assessed valuation (secured, unsecured and total) of taxable properties within the District for the then current fiscal year, as shown on the most recent equalized assessment role, if and to the extent made available by the County of Riverside (the "County"). If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(v) Information regarding twenty taxpayers with the greatest combined ownership of taxable property in the District for the then current fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(vi) Information regarding total secured tax charges and delinquencies on taxable properties within the District for the last completed fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Significant Events.** (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

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

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

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

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

(vi) tender offers;

(vii) defeasances;

(viii) rating changes;

(ix) bankruptcy, insolvency, receivership or similar event of the District; or

(x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

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

(ii) modifications to rights of Bond Holders;

(iii) Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or

(viii) incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Bond holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in

subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**Section 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**Section 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual

Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**Section 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2020

**VAL VERDE UNIFIED SCHOOL  
DISTRICT**

By: \_\_\_\_\_

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES,  
INC. DOING BUSINESS AS APPLIED BEST  
PRACTICES,  
as Dissemination Agent**

By: \_\_\_\_\_  
Managing Principal

**EXHIBIT A**

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: VAL VERDE UNIFIED SCHOOL DISTRICT

Name of Issue: Val Verde Unified School District (Riverside County, California) General  
Obligation Bonds, 2012 Election, Series 2020E

Date of Issuance: \_\_\_\_\_, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated \_\_\_\_\_, 2020. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**VAL VERDE UNIFIED SCHOOL DISTRICT**

## CONTINUING DISCLOSURE CERTIFICATE

**THIS CONTINUING DISCLOSURE CERTIFICATE** (this “Disclosure Certificate”) is executed and delivered by the Val Verde Unified School District (the “District”) in connection with the issuance of \$ \_\_\_\_\_ aggregate principal amount of Val Verde Unified School District (Riverside County, California) 2020 General Obligation Refunding Bonds (Federally Taxable) (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on June 2, 2020 (the “Resolution”). The District covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Financial Obligation” shall mean, for the purposes of the Listed Events set out in Section 5(a)(x) and 5(b)(viii), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement, dated \_\_\_\_\_, 2020 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

“Participating Underwriter” shall mean the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

**Section 3. Provision of Annual Reports.** (a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District’s fiscal year (which due date shall be February 25 of each year, so long as the District’s fiscal year ends on June 30), commencing with the report for the 2019-20 Fiscal Year (which is due not later than February 25, 2021), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in a filing with the MSRB. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

**Section 4. Content of Annual Reports.** The District’s Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year, or a summary thereof.

(ii) The average daily attendance in District schools on an aggregate basis for the last completed fiscal year.

(iii) The District's outstanding debt.

(iv) Information regarding total assessed valuation (secured, unsecured and total) of taxable properties within the District for the then current fiscal year, as shown on the most recent equalized assessment role, if and to the extent made available by the County of Riverside (the "County"). If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(v) Information regarding twenty taxpayers with the greatest combined ownership of taxable property in the District for the then current fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(vi) Information regarding total secured tax charges and delinquencies on taxable properties within the District for the last completed fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Significant Events.** (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

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

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

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

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

(vi) tender offers;

(vii) defeasances;

(viii) rating changes;

(ix) bankruptcy, insolvency, receivership or similar event of the District; or

(x) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

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

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

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

(ii) modifications to rights of Bond Holders;

(iii) Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent; or

(viii) incurrence of a Financial Obligation of the District, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Bond holders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3 hereof, as provided in Section 3(b) hereof.

(d) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the District determines would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in

subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

(e) The District intends to comply with the Listed Events described in subsection (a)(x) and subsection (b)(viii), and the definition of “Financial Obligation” in Section 1, with reference to the Rule, any other applicable federal securities laws and the guidance provided by the Securities and Exchange Commission in Release No. 34-83885, dated August 20, 2018 (the “2018 Release”), and any further amendments or written guidance provided by the Securities and Exchange Commission or its staff with respect to the amendments to the Rule effected by the 2018 Release.

**Section 6. Format for Filings with MSRB.** Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

**Section 7. Termination of Reporting Obligation.** The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in a filing with the MSRB.

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the District with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual

Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

**Section 11. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2020

**VAL VERDE UNIFIED SCHOOL  
DISTRICT**

By: \_\_\_\_\_

ACCEPTED AND AGREED TO:

**FIELDMAN, ROLAPP & ASSOCIATES,  
INC. DOING BUSINESS AS APPLIED BEST  
PRACTICES,  
as Dissemination Agent**

By: \_\_\_\_\_  
Managing Principal

**EXHIBIT A**

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: VAL VERDE UNIFIED SCHOOL DISTRICT

Name of Issue: Val Verde Unified School District (Riverside County, California) 2020  
General Obligation Refunding Bonds (Federally Taxable)

Date of Issuance: \_\_\_\_\_, 2020

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated \_\_\_\_\_, 2020. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**VAL VERDE UNIFIED SCHOOL DISTRICT**

**APPENDIX E**

**COUNTY OF RIVERSIDE STATEMENT OF INVESTMENT POLICY**

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**COUNTY OF RIVERSIDE  
OFFICE OF THE TREASURER-TAX-COLLECTOR  
STATEMENT OF INVESTMENT POLICY**

**INTRODUCTION**

The Treasurer's Statement of Investment Policy is presented annually to the County Investment Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code (Code Section). This policy will become effective immediately upon approval by the Board of Supervisors.

**SCOPE**

The Treasurer's Statement of Investment Policy is limited in scope to only those county, school, special districts and other fund assets actually deposited and residing in the County Treasury. It does not apply to bond funds or other assets belonging to the County of Riverside, or any affiliated public agency the assets of which reside outside of the County Treasury.

**FIDUCIARY RESPONSIBILITY**

Code Section 27000.3 declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a trustee and therefore a fiduciary subject to the prudent investor standard. This standard, as stated in Code Section 27000.3 requires that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors."

**PORTFOLIO OBJECTIVES**

The first and primary objective of the Treasurer's investment of public funds is to **safeguard investment principal**; second, to maintain sufficient **liquidity** within the portfolio to meet daily cash flow requirements; and third, to achieve a reasonable rate of return or **yield** on the portfolio consistent with these objectives. The portfolio shall be actively managed in a manner that is responsive to the public trust and consistent with State law.

**AUTHORITY**

Statutory authority for the Treasurer's investment and safekeeping functions are found in Code Sections 53601 and 53635 et. seq. The Treasurer's authority to make investments is to be renewed annually, pursuant to state law. It was last renewed by the Board of Supervisors on October 22, 2019 by County Ordinance No.767.23. Code Section 53607 effectively requires the legislative body to delegate investment authority of the County on an annual basis.

**AUTHORIZED INVESTMENTS**

Investments shall be restricted to those authorized in Code Sections 53601 and 53635 as amended

and as further restricted by this policy statement. All investments shall be governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification, credit quality standards (two of the three nationally recognized ratings shall be used for corporate and municipal securities), and purchase restrictions that apply.

#### **STAFF AUTHORIZED TO MAKE INVESTMENTS**

Only the Treasurer-Tax Collector, Jon Christensen, Chief Investment Manager, Giovane Pizano, Deputy Investment Manager, Steve Faeth, and Assistant Investment Manager, Isela Licea, are authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts.

#### **AUTHORIZED BROKER/DEALERS**

Securities transactions are limited solely to those noted on Schedule II of this policy.

#### **DAILY ACCOUNTABILITY AND CONTROL**

Except for emergencies or previous authorization by the Treasurer-Tax Collector, all investment transactions are to be conducted at the Treasurer-Tax Collector's office (if open and available to conduct business), documented, and reviewed by the Treasurer-Tax Collector, and/or Assistant Treasurer-Tax Collector. All investment transactions will be entered daily into the Treasurer's internal financial accounting system with copies to be filed on a timely basis. Portfolio income shall be reconciled daily against cash receipts and quarterly, prior to the distribution of earnings among those entities sharing in pooled fund investment income.

#### **SECURITY CUSTODY & DELIVERIES**

All securities, except for money market funds registered in the County's name and securities issued by the County or other local agencies shall be deposited for safekeeping with banks contracted to provide the County Treasurer with custodial security clearance services. These third party trust department arrangements provide the County with a perfected interest in, and ownership and control over, the securities held by the custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are **NOT** to be held in investment firm/broker dealer accounts. All security transactions are to be conducted on a "delivery versus payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Securities issued by local agencies purchased directly shall be held in the Treasurer's vault. The security holdings shall be reconciled with the custodian holding records daily. The Treasurer's Fiscal Compliance unit will audit purchases daily for compliance, and audit holding records monthly.

#### **COMPETITIVE PRICING**

Investment transactions are to be made at current market value and competitively priced whenever possible. Competitive pricing does not necessarily require submission of bids, but does require adequate comparative analysis. The current technology utilized by the Treasury provides this information.

## **MATURITY LIMITATIONS**

No investment shall exceed a final maturity date of five years from the date of purchase unless it is authorized by the Board of Supervisors pursuant to Code Section 53601. The settlement date will be used as the date of purchase for measuring maturity limitations.

## **LIQUIDITY**

The portfolio shall maintain a weighted average days to maturity (WAM) of less than 541 days or 1.5 years. To provide sufficient liquidity to meet daily expenditure requirements, the portfolio shall maintain at least 40% of its total value in securities having maturities 1 year or less.

## **SECURITIES LENDING**

The Treasurer may engage in securities lending activity limited to 20% of the portfolio's book value on the date of transaction. Instruments involved in a securities lending program are restricted to those securities pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

## **REVERSE REPURCHASE AGREEMENTS**

The Treasury shall not engage in any form of leverage for the purpose of enhancing portfolio yield. There shall be no entry into reverse repurchase agreements except for temporary and unanticipated cash flow requirements that would cause the Treasurer to sell securities at a principal loss. Any reverse repurchase agreements are restricted pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

## **MITIGATING MARKET & CREDIT RISKS**

Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the: (1) credit quality standards issued by the nationally recognized rating agencies on the credit worthiness of each issuer of the security, (2) limiting the concentration of investment in any single firm as noted in Schedule I, (3) by limiting the duration of investment to the time frames noted in Schedule I, and (4) by maintaining the diversification and liquidity standards expressed within this policy.

## **TRADING & EARLY SALE OF SECURITIES**

All securities are to be purchased with the intent of holding them until maturity. However, in an effort to minimize market and credit risks, securities may be sold prior to maturity either at a profit or loss when economic circumstances, trend in short-term interest rates, or a deterioration in credit-worthiness of the issuer warrants a sale of the securities to either enhance overall portfolio yield or to minimize further erosion and loss of investment principal. Such sales should take into account the short and long term impacts on the portfolio. However, the sale of a security at a loss can only be made after first securing the approval of the Treasurer-Tax Collector.

## **PURCHASE OF WHEN ISSUED SECURITIES**

When issued (W.I.) purchases of securities and their subsequent sale prior to cash settlement are authorized as long as sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date.

## **PORTFOLIO REPORTS/AUDITING**

Portfolio reports required by Code Sections 53607 and 27133(e) shall be filed monthly with the Board of Supervisors, Investment Oversight Committee, Superintendent of Schools, Executive Officer, County Auditor Controller and interested parties. Consistent with Board Policy B-21 (County Investment Policy Statement), § III A, an outside compliance audit will be conducted annually. Outside audits will be conducted at least biennially by an independent auditing firm selected by the Board of Supervisors, per Board Minute Order No. 3.48. Reports are posted monthly on the Treasurer's website:

<http://www.countytreasurer.org/Treasurer/TreasurersPooledInvestmentFund/MonthlyReports.aspx>

## **SPECIFIC INVESTMENTS**

Specific investments for individual funds may be made in accordance with the Treasurer's Statement of Investment Policy, upon written request and approval of the responsible agency's governing board, and, approval of the Treasurer-Tax Collector. Investments outside of the policy may be made on behalf of such funds with approval of the governing Board and approval of the Treasurer-Tax Collector. All specific investments shall be memorialized by a Memorandum of Understanding. With the purchase of specific investments, the fund will be allocated the earnings and/or loss associated with those investments. The Treasurer-Tax Collector reserves the right to allocate a pro-rata charge for administrative costs to such funds.

## **PERFORMANCE EVALUATION**

Portfolio performance is monitored daily and evaluated monthly in comparison to the movement of the Treasurer's Institutional Money Market Index (TIMMI), or other suitable index. Over time, the portfolio rate of return should perform in relationship to such an index. Regular meetings are to be conducted with the investment staff to review the portfolio's performance, in keeping with this policy, and, current market conditions.

## **INVESTMENT OVERSIGHT COMMITTEE**

In accordance with Code Section 27130 et seq. of the Code, the Board of Supervisors has established an Investment Oversight Committee. The role of the Committee is advisory in nature. It has no input on day to day operations of the Treasury.

## **QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS**

Portfolio income, including gains and losses (if any), will be distributed quarterly in compliance with Sections 53684 and 53844 of the Code which give the Treasurer broad authority to apportion earnings and losses among those participants sharing in pooled investment income, and, except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the fiscal quarter. Any subsequent adjustments of reported earnings by the Auditor-Controller will be first reviewed and approved by the Treasurer to assure compliance with Code Sections 53684 and 53844.

## **QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS**

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted, pursuant to Code Section 27013, to deduct from investment income before the distribution thereof, the actual cost of the investment, audit, deposit, handling and distribution of such income. Accordingly, in keeping with Code Sections 27013, 27133(f), and 27135, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, custodial safekeeping charges, the pro-rata annual cost of the salaries including fringe

benefits for the personnel in the Treasurer-Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions. Costs are apportioned based upon average daily ending balances. Prior to gaining reimbursement for these costs, the Treasurer-Tax Collector shall annually prepare a proposed budget revenue estimate per Code Section 27013.

### **TREASURY OPERATIONS**

Treasury operations are to be conducted in the most efficient manner to reduce costs and assure the full investment of funds. The Treasurer will maintain a policy regarding outgoing wires and other electronic transfers. Requests for outgoing transfers which do not arrive on a timely basis may be delayed. The County Treasurer may institute a fee schedule to more equitably allocate costs that would otherwise be spread to all depositors.

### **POLICY CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY**

Should any agency solicit entry, the agency shall comply with the requirements of Section 53684 of the Code and adopt a resolution by the legislative or governing body of the local agency authorizing the deposit of excess funds into the County treasury for the purpose of investment by the County Treasurer. The resolution shall specify the amount of monies to be invested, the person authorized by the agency to coordinate the transaction, the anticipated time frame for deposits, the agency's willingness to be bound to the statutory 30-day written notice requirement for withdrawals, and acknowledging the Treasurer's ability to deduct pro-rata administrative charges permitted by Code Section 27013. Any solicitation for entry into the TPIF must have the County Treasurer's consent before the receipt of funds is authorized. The depositing entity will enter into a depository agreement with the Treasurer.

### **POLICY CRITERIA FOR VOLUNTARY PARTICIPANT WITHDRAWALS**

With the Treasury being required to maintain a 40% liquidity position at all times during the calendar year, it is anticipated that sufficient funds will be on hand to immediately meet on demand all participant withdrawals for the full dollar amounts requested without having to make any allowance or pro-rata adjustment based on the current market value of the portfolio. In addition, any withdrawal by a local agency for the purpose of investing or depositing those funds outside the Pool shall have the prior written approval of the County Treasurer.

The Treasurer's approval of the withdrawal request shall be based on the availability of funds; the circumstances prompting the request; the dollar volume of similar requests; the prevailing condition of the financial markets, and, an assessment of the effect of the proposed withdrawal on the stability and predictability of the investments in the county treasury.

### **POLICY ON RECEIPT OF HONORARIA, GIFTS AND GRATUITIES**

Neither the Treasurer-Tax Collector nor any member of his staff, shall accept any gift, gratuity or honoraria from financial advisors, brokers, dealers, bankers or other persons or firms conducting business with the County Treasurer which exceeds the limits established by the Fair Political Practices Commission (FPPC) and relevant portions of Code Section 27133. IOC members shall be subject to the limits included in the Board of Supervisors Policy B-21.

### **ETHICS & CONFLICTS OF INTEREST**

Officers and staff members involved in the investment process shall refrain from any personal

business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. In addition, the County Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, Investment Manager, and Assistant Investment Manager are required to file annually the applicable financial disclosure statements as mandated by the FPPC and County policy.

**INVESTMENTS MADE FROM DEBT ISSUANCE PROCEEDS**

The proceeds of a borrowing may be specifically invested per Schedule I of this policy (with the exception of Collateralized Time Deposits and Local Agency Obligations) as well as competitively bid investments (see County of Riverside Office Of The Treasurer-Tax Collector Policy Governing Competitively Bid Investments, dated March 3, 2011).

No pooled fund investments made from the proceeds of a borrowing, the monies of which are deposited in the County Treasury, shall be invested for a period of time exceeding the maturity date of the borrowing. Nor shall any monies deposited with a bank trustee or fiscal agent for the ultimate purpose of retiring the borrowing be invested beyond the maturity date of the borrowing.

**POLICY ADOPTION & AMENDMENTS**

This policy statement will become effective following adoption by the Board of Supervisors, and, will remain in force until subsequently amended in writing by the Treasurer-Tax Collector and approved by the Board.



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Jon Christensen  
County of Riverside  
Treasurer-Tax Collector

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2/11/2020

## SCHEDULE I

AUTHORIZED INVESTMENTS	DIVERSIFICATION (1)	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury notes, bills, bonds or other certificates of indebtedness	100%	N/A	Maximum 5 years	N/A
Notes, participations, or obligations issued by the agencies of the federal government	100%	N/A	Maximum 5 years	N/A
Bonds, notes, warrants or certificates of indebtedness issued by the state of CA, or local agencies, or, the County of Riverside. Registered treasury notes or bonds of any of the other 49 United States per Government Code Section 53601 (d)	15% maximum	See Schedule VI	Maximum 4 years	Long term "AA-, Aa3, AA-" or better
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, and the International Finance Corporation	20%	Max 10% per issuer	Maximum 4 years	Long term "AA, Aa, AA" or better
Local Agency Investment Fund (LAIF)	\$50 million	Maximum \$50 million per LAIF	Daily Liquidity	N/A
Commercial Paper (CP)	40% maximum	See Schedule VI	Maximum 270 days	Short term "A-1,P-1,F-1" or better
Local Agency Obligations (LAO)	2.5% maximum	Board of Supervisors approval required. Issued by pool depositors only	Maximum 3 years	Non-rated, if in the opinion of the Treasurer, considered to be of investment grade or better
CalTRUST Short Term Fund (CLTR)	1% maximum	Board of Supervisors approval required	Daily liquidity	NR / Portfolio managed pursuant to California Government Code § 53601 & 53635
Negotiable CD's (NCD'S) issued by national or state chartered banks or a licensed branch of a foreign bank	25% maximum	See Schedule VI	Maximum 1 year	Short term "A-1,P-1,F-1" or better
Collateralized Time Deposits (TCD)	2% maximum	See Schedule IV	Maximum 1 year	N/A
Repurchase Agreements (REPO) with 102% collateral restricted to U. S. Treasuries, agencies, agency mortgages, CP, BA's	40% max, 25% in term repo over 7 days. No more than 20% w/one dealer in term repo	Repurchase agreements to be on file	Maximum 45 days	Short Term "A-1, P-1, F-1" or better If "A-2, P-2, F2" then overnight only
Reverse Repurchase Agreements on U. S. Treasury & federal agency securities in portfolio	10% maximum	For temporary cash Flow needs only.	Max 60 days with prior approval of Board of Supervisors	N/A
Medium Term Notes (MTNO) or Corporate Notes	20% maximum	See Schedule VI	Maximum 3 years	"AA, Aa2, AA" minimum if under 1 year
Interest bearing Checking Account	20%	N/A	Daily Liquidity	Fully collateralized
Money Market Mutual Funds (MMF) that invest in eligible securities meeting requirements of California Government Code	20% maximum	See Schedule V	Daily liquidity	Long Term "AAA" (2 of 3 nationally recognized rating services)

(1) Whichever is greater.

**AUTHORIZED BROKER/DEALERS  
SCHEDULE II**

The Treasurer is authorized to conduct investment security transactions with the broker/dealers which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

1. Other authorized firms:

Union Bank  
Piper Sandler & Co.  
SunTrust Bank  
FTN Financial  
InCapital  
Raymond James & Associates, Inc.  
Siebert Williams Shank & Co.  
Academy Securities Inc.  
Bank of New York

2. Direct purchases from major commercial paper issuers, money market mutual funds, banker's acceptance issuers, negotiable CD issuers, or savings and loan are authorized.
3. Incidental purchases of less than \$10 million may be made with other firms if in the opinion of the Treasurer, such transactions are deemed advantageous.

To ensure compliance with the County Treasurer's investment guidelines, each newly authorized primary government dealer and other authorized firms (as listed above in section 1, 2 and 3) will be supplied a complete copy of this Investment Policy document approved by the Board of Supervisors.

**POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS  
SCHEDULE III**

1. The County Treasurer has elected to limit security transactions as mentioned in Schedule II. Accordingly, the financial institution must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses. The Treasurer is prohibited from the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.
2. The County Treasurer's intent is to enter into long-term relationships. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
3. The firm must specify the types of securities it specializes in and will be made available for our account.
4. It is important that the firm provide related services that will enhance the account relationship which could include:
  - (a) An active secondary market for its securities.
  - (b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
  - (c) Be willing to trade securities for our portfolio.
  - (d) Be capable of providing market analysis, economic projections, and newsletters.
  - (e) Provide market education on new investment products, security spread relationships, graphs, etc.
5. The firm must be willing to provide us monthly financial statements, and transactional confirms.
6. The County Treasurer is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.
7. Without exception, all transactions are to be conducted on a delivery versus payment (DVP) basis.
8. The broker/dealer must have been in operation for more than 5 years, and, if requested, the firm must be willing to provide us a list of local government clients or other reference, particularly those client relationships established within the State of California.

## **POLICY CRITERIA FOR COLLATERALIZED TIME DEPOSITS SCHEDULE IV**

Before the Treasury can place a time deposit with a local bank or savings and loan, the following criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit of Moneys."
2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans residing in Riverside County, as well as exceed that of U.S. Treasury Securities.
3. Investments less than the FDIC insurance limit will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.
4. Investments exceeding the FDIC insurance limit shall be fully collateralized by U.S. Treasury and Federal Agency securities having maturities five years or less. The County Treasurer must receive written confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged as collateral must have a current market value greater than the dollar amount of the deposit in keeping with the ratio requirements specified in Code Section 53652. Additionally, a statement of the collateral shall be provided on a monthly basis. A collateral waiver for the portion insured by the FDIC will be granted.
5. The County Treasurer must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.
6. The County Treasurer will not place a public fund deposit for more than 10% of the present paid-in capital and surplus of the bank.
7. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc).
8. All time certificates must have a maturity date not exceeding one year from the date of the deposit, with interest payments based upon the stated interest rate.
9. The County Treasurer must receive a letter from an officer of the bank at the time the initial deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists between any County official and an officer or employee of the bank.
10. Time deposits will only be made with banks and savings and loans having branch office locations within Riverside County.

**POLICY CRITERIA FOR ENTERING INTO A MONEY MARKET FUND  
SCHEDULE V**

Shares of beneficial interest issued by diversified management companies, also known as money market mutual funds, invest in the securities and obligations authorized by Code Sections 53601.7(10). Approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et. seq.) and shall meet the following criteria:

1. The fund must have a “AAA” ratings from two of the nationally recognized rating services: Moody’s, Fitch, Standard & Poor’s.
2. The fund’s prospectus cannot allow hedging strategies, options or futures.
3. The fund must provide a current prospectus before participation in the fund and provide copies of their portfolio reports and shall provide at least at month-end, a complete listing of securities within the fund’s portfolio.

**POLICY CRITERIA  
CORPORATE AND MUNICIPAL SECURITIES  
SCHEDULE VI**

**Corporate Criteria.** Money market securities will be first restricted by short-term ratings and then further restricted by long term credit ratings. The long term credit ratings, including the outlook of the parent company will be used. Money market securities consist of negotiable certificates of deposit (NCDs), bankers acceptances, and commercial paper. Medium term securities will be restricted by the long term ratings of the legal issuer. Concentration limit restrictions will make no distinction between medium term notes and money market securities.

No short term negative credit watch or long-term negative outlook by 2 of 3 nationally recognized rating services except for entities participating in government guaranteed programs. Credit Category 1 and Category 2 with negative credit watch or long-term negative outlook, by more than one nationally recognized rating service is permitted as Category 3 and Category 4 respectively.

**Municipal Criteria.** Minimum of A or A2 or A, underlying credit rating for selecting insured municipal securities and a maximum of 5% exposure to any one insurer (direct purchases and indirect commitments).

**Liquidity Provider Restrictions.** Maximum of 5% exposure to any one institution (direct purchases and indirect commitments).

Category	Short-Term Ratings	Long-Term Ratings	Restrictions
<b>1</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1+)	AAA/Aaa/AAA	<b>Corp.</b> Maximum of 5% per issuer with no more than 2% greater than 1 year final maturity and no more than 1% greater than 2 year final maturity.  <b>Muni.</b> Maximum of 5% per issuer with no more than 2% greater than 13 month final maturity.
<b>2</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA+/Aa1/AA+, AA/Aa2/AA	<b>Corp.</b> Maximum of 4% per issuer with no more than 1% greater than 1 year final maturity. No more than 13 month final maturity.  <b>Muni.</b> Maximum of 5% per issuer with no more than 1% greater than 13 month final maturity. For the State of California debt only maximum of 2% greater than 13 month final maturity.
<b>3</b>	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA-/Aa3/AA-	<b>Corp.</b> Maximum of 3% per issuer with no more than 1.5% greater than 90 days. No more than 270 days final maturity.  <b>Muni.</b> Maximum of 5% per issuer. No more than 13 month final maturity.
<b>4</b>	A-1/P-1/F-1 (SP-1/MIG1/F-1)	A/A2/A or better.	<b>Corp.</b> No Asset Backed programs. Maximum of 2% per issuer with no more than 1% greater than 7 days. No more than 45 days maximum maturity.

**Rating Agency Comparison Table**

Short-Term Scale

<b>S&amp;P</b>	<b>A-1+, A-1</b>
<b>Moody's</b>	<b>P-1</b>
<b>Fitch</b>	<b>F-1+, F-1</b>

Long-Term Scale

<b>S&amp;P</b>	<b>AAA, AA+, AA, AA-, A+, A</b>
<b>Moody's</b>	<b>Aaa, Aa1, Aa2, Aa3, A1, A2</b>
<b>Fitch</b>	<b>AAA, AA+, AA, AA-, A+, A</b>

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## APPENDIX F

### COUNTY OF RIVERSIDE POOLED INVESTMENT FUND

*The following information and the investment policy of the County have been provided by the Treasurer-Tax Collector (the “County Treasurer”), and has not been confirmed or verified by the District or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Further information may be obtained from the County Treasurer.*

The County Treasurer maintains one Pooled Investment Fund (the “PIF”) for all local jurisdictions having funds on deposit in the County Treasury. As of April 30, 2020, the portfolio assets comprising the PIF had a market value of \$8,707,241,840.70.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. On June 30, 2019, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of “mandatory” vs. “discretionary” depositors. The County Auditor-Controller reports that collectively, these mandatory deposits constituted approximately 81.91% of the funds on deposit in the County Treasury, while approximately 18.09% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions to participate in the County’s PIF, the desire of the County Treasurer is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the County Treasurer’s 2020 Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss.

The investments in the Treasurer’s Pooled Investment Fund as of April 30, 2020 were as follows:

U.S. Treasury Securities	\$1,050,312,062.15	12.12%
Federal Agency Securities	4,915,734,761.16	56.71
Cash Equivalent & Money Market Funds	1,178,023,976.03	13.59
Commercial Paper	921,180,019.43	10.63
NCD	390,000,000.00	4.50
Medium Term Notes	82,836,631.79	0.96
Municipal Notes	130,588,958.50	1.51
Certificates of Deposit	0	-
Repurchase Agreements	0	-
Local Agency Obligations <sup>(1)</sup>	40,000.00	0.001
<b>Total Book Value</b>	<b>\$8,668,716,409.06</b>	<b>100.000%</b>
Book Yield	1.15%	
Weighted Average Maturity (years)	1.007	

<sup>(1)</sup> Represents County Obligations issued by the Riverside District Court Financing Corporation.

As of April 30, 2020, the market value of the PIF was 100.44% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Sections 53844 requires that the investment income be credited to the specific fund in which the investment was made.

The Board has established an “Investment Oversight Committee” in compliance with California Government Code Section 27131. Currently, the Committee is composed of the County Finance Director, the County Treasurer-Tax Collector, the County Superintendent of Schools, a school district representative and a public member at large. The purpose of the committee is to review the prudence of the County’s investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board. As of September 29, 2004, the State no longer required the County to have a local oversight committee; however, the County has elected to maintain the committee. The committee is utilized by the County to safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of “Aaa-bf” from Moody’s Investors Service and “AAAf/S1” rating from Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

*Neither the District nor the Underwriter has made an independent investigation of the investments in the PIF and neither has made an assessment of the current County investment policy, a copy of which is attached hereto. The value of the various investments in the PIF will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, with the approval of the IOC and the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the PIF will not vary significantly from the values described herein.*

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

*The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.*

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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**APPENDIX H**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## 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



**BAM**

**CALIFORNIA  
ENDORSEMENT TO  
MUNICIPAL BOND  
INSURANCE POLICY  
NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

\_\_\_\_\_  
Authorized Officer