

PRELIMINARY OFFICIAL STATEMENT DATED JULY 8, 2020

**NEW ISSUE - FULL BOOK-ENTRY
BANK QUALIFIED**

**RATINGS: S&P (Insured): "AA"
S&P (Underlying): "A"
See "RATINGS" herein.**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In addition, the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$1,700,000*

**EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure P)
(Bank Qualified)**

\$1,700,000*

**EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure Q)
(Bank Qualified)**

Dated: Date of Delivery

Due: August 1, as shown on inside cover

Authority and Purpose. The El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure P) (the "Measure P Bonds") and the El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure Q) (the "Measure Q Bonds", and with the Measure P Bonds, the "Bonds") are being issued by the El Nido Elementary School District (the "District") pursuant to certain provisions of the California Government Code and a resolution of the Board of Trustees of the District adopted on June 23, 2020 (the "Bond Resolution"). The Bonds were authorized at elections of the registered voters of the District both held on March 3, 2020, which authorized the issuance of \$3,400,000 principal amount of general obligation bonds pursuant to Measure P (the "Measure P Authorization"), and authorized the issuance of \$3,400,000 principal amount of general obligation bonds pursuant to Measure Q (the "Measure Q Authorization" and together with the Measure P Authorization, the "Authorizations"). The proceeds of the Bonds will be applied to the renovation and improvement of school facilities, and related costs of issuance. The Bonds represent the first series of bonds issued pursuant to the Authorizations. See "THE FINANCING PLAN" AND "THE BONDS – Authority for Issuance."

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

Payments. Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2021, by check mailed to the person in whose name the Bond is registered. The Bonds will mature, and principal will be payable, on August 1 in each of the years and in the principal amounts shown on the inside front cover page hereof. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, Los Angeles, California as Paying Agent, to The Depository Trust Company ("DTC") for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS - Description of the Bonds."

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

Book-Entry Only. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Beneficial owners will not receive physical certificates representing their interests in the Bonds. See "THE BONDS – Description of the Bonds - Book-Entry Form" and "APPENDIX F - Book-Entry Only System."

Bond Insurance. The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"). See "BOND INSURANCE" and "APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."



MATURITY SCHEDULES

(See inside cover)

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

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. Dannis Woliver Kelley, Long Beach, California, is serving as counsel to the Underwriter. It is anticipated that the Bonds will be available for delivery to Cede & Co., as nominee of DTC, on or about July 29, 2020.*

O'CONNOR & COMPANY SECURITIES
PUBLIC FINANCE

The date of this Official Statement is: _____, 2020.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULES*

BASE CUSIP^(†): _____

**EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure P)
(Bank Qualified)**

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP^(†)
2021	\$75,000				
2022	40,000				
2023	50,000				
2027	5,000				
2028	5,000				
2029	15,000				
2030	20,000				
2031	20,000				
2032	25,000				
2033	30,000				
2034	35,000				
2035	40,000				
2036	40,000				
2037	45,000				
2038	50,000				
2039	60,000				
2040	65,000				
2041	65,000				
2042	80,000				
2043	85,000				
2044	95,000				
2045	100,000				
2046	110,000				
2047	120,000				
2048	130,000				
2049	140,000				
2050	155,000				

[Maturity Schedules continued on next page]

*Preliminary, subject to change.

† Copyright 2020, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association, and are provided for convenience of reference only. Neither the District nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

MATURITY SCHEDULES*
(continued)

EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure Q)
(Bank Qualified)

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP ^(†)
2021	\$75,000				
2022	40,000				
2023	50,000				
2027	5,000				
2028	5,000				
2029	15,000				
2030	20,000				
2031	20,000				
2032	25,000				
2033	30,000				
2034	35,000				
2035	40,000				
2036	40,000				
2037	45,000				
2038	50,000				
2039	60,000				
2040	65,000				
2041	65,000				
2042	80,000				
2043	85,000				
2044	95,000				
2045	100,000				
2046	110,000				
2047	120,000				
2048	130,000				
2049	140,000				
2050	155,000				

*Preliminary, subject to change.

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GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. 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. This Official Statement is not a contract between any Bond owner and the District or the Underwriter.

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

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

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

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

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

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

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

Bond Insurance Disclaimer. Build America Mutual Assurance Company (“BAM” or the “Bond Insurer”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Bond Insurer 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 the Bond Insurer, supplied by the Bond Insurer and presented under the heading “BOND INSURANCE” and in APPENDIX H.

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

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

Website and Social Media. The District maintains a website and certain social media accounts. However, the information presented on such website and social media accounts is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MERCED COUNTY
STATE OF CALIFORNIA**

BOARD OF TRUSTEES

Bobby Borba, *President*
Mike Anderson, *Vice President*
Corey Fagundes, *Clerk*
Barbara Greninger, *Member*
Liliana Rojas, *Member*

DISTRICT ADMINISTRATIVE STAFF

Lori Gonzalez, *Superintendent*
Lee Vang, *Business Manager*

PROFESSIONAL SERVICES

MUNICIPAL ADVISOR

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

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

UNDERWRITER'S COUNSEL

Dannis Woliver Kelley
Long Beach, California

BOND REGISTRAR, TRANSFER AGENT and PAYING AGENT

U.S. Bank National Association
Los Angeles, California

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
FINANCING PLAN	4
THE BONDS	5
Authority for Issuance	5
Description of the Bonds	5
Redemption	6
Registration, Transfer and Exchange of Bonds	7
Amendments to Bond Resolution	8
Defeasance	8
SOURCES AND USES OF FUNDS	10
APPLICATION OF PROCEEDS OF BONDS	11
Building Fund	11
Debt Service Funds	11
Investment of Proceeds of Bonds	12
DEBT SERVICE SCHEDULE	13
SECURITY FOR THE BONDS	14
<i>Ad Valorem</i> Taxes	14
Debt Service Fund	15
Not a County Obligation	15
Disclosure Relating to COVID-19	15
PROPERTY TAXATION	18
Property Tax Collection Procedures	18
Taxation of State-Assessed Utility Property	19
Historic Assessed Valuations	19
Parcels by Land Use	21
Per Parcel Assessed Valuation of Single-Family Homes	22
Reassessments and Appeals of Assessed Value	22
Teeter Plan; Property Tax Collections	23
Tax Rates	24
Top Twenty Property Owners	25
Direct and Overlapping Debt Obligations	26
BOND INSURANCE	27
Build America Mutual Assurance Company	27
Additional Information Available from the Bond Insurer	28
TAX MATTERS	29
Tax Exemption	29
Other Tax Considerations	30
Form of Opinion	30
CONTINUING DISCLOSURE	31
CERTAIN LEGAL MATTERS	31
Absence of Material Litigation	31
Legal Opinion	31
RATINGS	32
UNDERWRITING	32
ADDITIONAL INFORMATION	32
EXECUTION	33
APPENDIX A - Audited Financial Statements of the District For Fiscal Year Ending June 30, 2019	A-1
APPENDIX B - General and Financial Information About the District	B-1
APPENDIX C - General Information About Merced County	C-1
APPENDIX D - Form of Opinion of Bond Counsel	D-1
APPENDIX E - Form of Continuing Disclosure Certificate	E-1
APPENDIX F - Book-Entry Only System	F-1
APPENDIX G - Merced County Investment Policy and Recent Investment Report	G-1
APPENDIX H - Specimen Bond Insurance Policy	H-1

OFFICIAL STATEMENT

\$1,700,000*
EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure P)
(Bank Qualified)

\$1,700,000*
EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A
(Measure Q)
(Bank Qualified)

The purpose of this Official Statement, which includes the cover page, inside cover pages and attached appendices, is to set forth certain information concerning the sale and delivery by El Nido Elementary School District (Merced County, California) (the “**District**”) of its General Obligation Bonds, Election of 2020, Series A (Measure P) (the “**Measure P Bonds**”) and its General Obligation Bonds, Election of 2020, Series A (Measure P) (the “**Measure Q Bonds**”, and with the Measure P Bonds, the “**Bonds**”). Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Bond Resolution (defined herein).

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 and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District is an elementary school district located in central California in the County of Merced (the “**County**”), approximately twelve miles south of the City of Merced. The District serves students in grades pre-kindergarten through eight. The District’s enrollment for 2019-20 was 158 students. For more information regarding the District and its finances, see Appendix A and Appendix B attached hereto. See also Appendix C hereto for demographic and other information regarding the County.

COVID-19 Statement. The COVID-19 pandemic has resulted in a public health crisis that is fluid and unpredictable with financial and economic impacts that cannot be predicted. As such, investors are cautioned that the District cannot at this time predict the impacts that the COVID-19 pandemic may have on its operations and finances, property values in the District, and economic activity in the District, the State and the nation, among others. District school sites were closed in March 2020 for the remainder of the 2019-20 academic year, and the District transitioned to distance learning. The District is in the process of planning for the 2020-21 academic year, with the guidance of health and public education authorities. For more disclosure regarding the COVID-19 emergency, see “SECURITY FOR THE BONDS – Disclosure Regarding COVID-19” herein. See also references to COVID-19 in the sections herein entitled “PROPERTY TAXATION”, and in APPENDIX B under the heading “DISTRICT GENERAL INFORMATION” and “STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS.”

*Preliminary; subject to change.

Authority for Issuance; Purposes. The Bonds will be issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (commencing with Section 53506) (the “**Bond Law**”) and pursuant to a resolution adopted by the Board of Trustees of the District on June 23, 2020. The Bonds are the first series of bonds issued by the District pursuant to an election held by the District on March 3, 2020 (the “**2020 Bond Election**”) in which more than 55% of the qualified electors of the District authorized the District to issue general obligation bonds pursuant to “**Measure P**” and “**Measure Q**”, which were two separate bond measures presented to District voters at the 2020 Bond Election. Measure P authorized bonds in a principal amount of \$3,400,000 (the “**Measure P Authorization**”). Measure Q authorized bonds in a principal amount of \$3,400,000 (the “**Measure Q Authorization**”). The net proceeds of the Bonds will be used to finance school construction and improvements as approved by District voters, respectively. See “THE FINANCING PLAN” and “THE BONDS – Authority for Issuance” and “SOURCES AND USES OF FUNDS” herein.

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

Interest on the Bonds accrues from the Dated Date and is payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2021. The Bonds will mature, and principal will be payable, on August 1 in each of the years and in the principal amounts shown on the inside front cover page of this Official Statement. See “THE BONDS - Description of the Bonds.”

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

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

The District can make no representation regarding the affect that the current COVID-19 outbreak may have on the assessed valuation of property within the District. See “SECURITY FOR THE BONDS – Disclosure Regarding COVID-19.”

Municipal Bond Insurance. Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“**BAM**” or the “**Bond Insurer**”) will issue its Municipal Bond Insurance Policy (the “**Policy**”) for the Bonds. The Policy guarantees the scheduled payment of principal 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” and APPENDIX H.

Legal Matters. Issuance of the Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Bond Counsel**”), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, is also serving as Disclosure Counsel to the District (“**Disclosure Counsel**”). Dannis Woliver Kelley, Long Beach, California, is serving as counsel to the Underwriter (“**Underwriter’s Counsel**”). *Payment of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel is contingent upon issuance of the Bonds.*

Tax Matters; Bank Qualification. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also, in the opinion of Bond Counsel, interest on the Bonds will be exempt from the State personal income taxes. The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986. Such section provides an exception to the prohibition against the ability of a “financial institution” (as defined in the Internal Revenue Code of 1986) to deduct its interest expense allocable to interest payable on the Bonds. See “TAX MATTERS” herein.

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

Other Information. For limiting factors about this Official Statement, see “General Information About This Official Statement” inside the cover hereof. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available by request to the Office of the District Superintendent at El Nido Elementary School District, 161 E. El Nido Road, El Nido, California 95317, telephone: 209-385-8420. The District may impose a charge for copying, mailing and handling.

[END OF INTRODUCTION]

FINANCING PLAN

The proceeds of the Measure P Bonds will be used to finance projects approved by the District's voters at the 2020 Bond Election. The abbreviated summary of the ballot measure known as "Measure P" (limited to 75 words or less) is as follows:

"To construct a multi-purpose room and gym for school and community use; and update and modernize classrooms, restrooms and school facilities; shall El Nido Elementary School District's measure be adopted authorizing \$3,400,000 of bonds at legal interest rates, generating approximately \$201,000 annually while bonds are outstanding with levies of approximately 2.5 cents per \$100 assessed value, with annual audits, independent citizens' oversight, no money for salaries and all money for local projects?"

The proceeds of the Measure Q Bonds will be used to finance projects approved by the District's voters at the 2020 Bond Election. The abbreviated summary of the ballot measure known as "Measure Q" (limited to 75 words or less) is as follows:

"To modernize and construct facilities, classrooms and restrooms; and make health, safety and accessibility upgrades and improvements; shall El Nido Elementary School District's measure be adopted authorizing \$3,400,000 of bonds at legal interest rates, generating approximately \$201,000 annually while bonds are outstanding with levies of approximately 2.5 cents per \$100 assessed value, with annual audits, independent citizens' oversight, no money for salaries and all money for local projects?"

As part of the ballot materials presented to District voters, the voters authorized specific lists of projects (the "**Project List**") eligible to be funded with proceeds of bonds sold pursuant to Measure P and the Measure Q, respectively. The District makes no representation as to the specific application of the proceeds of the Bonds, the completion of any projects listed on the respective Project Lists, or whether bonds authorized by the applicable Authorizations will provide sufficient funds to complete any particular project listed in the respective Project Lists.

[Remainder of page intentionally left blank]

THE BONDS

Authority for Issuance

The Bonds will be issued under the Bond Law and the Bond Resolution.

Description of the Bonds

Book-Entry Form. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of DTC. Purchasers of the Bonds (the “**Beneficial Owners**”) will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be made by U.S. Bank National Association, Los Angeles, California (the “**Paying Agent**”) to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice. See “APPENDIX F – Book-Entry Only System.”

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

Principal and Interest Payments. The Bonds will be dated the Dated Date and will bear interest payable semiannually each February 1 and August 1 (each, an “**Interest Payment Date**”), commencing on February 1, 2021, at the interest rates shown on the inside front cover pages of this Official Statement. The Bonds will mature, and principal will be payable, on August 1 in each of the years and in the principal amounts shown on the inside front cover pages of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond authenticated on or before the 15th day of the month prior to the first Interest Payment Date shall bear interest from the date of the Bonds. Each Bond authenticated during the period between the 15th calendar day of the month preceding any Interest Payment Date (the “**Record Date**”) and that Interest Payment Date shall bear interest from that Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If an Interest Payment Date does not fall on a business day, the interest, principal or redemption payment due on such Interest Payment Date will be paid on the next business day. The Bonds will be issued in the denomination of \$5,000 principal amount each or any integral multiple thereof.

See the maturity schedules on the inside cover pages of this Official Statement and “DEBT SERVICE SCHEDULES.”

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 20__ are not subject to redemption prior to their respective maturity dates. The Bonds maturing on or after August 1, 20__ are subject to redemption prior to their respective maturity dates, at the option of the District, on such basis as designated by the District and by lot within a maturity, in each case on any date on and after August 1, 20__, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Measure P Bonds maturing on August 1, 20__ (the “**Measure P Term Bonds**”), 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 table, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

Measure P Term Bonds Maturing August 1, 20__

Redemption Date (August 1)	Sinking Fund Redemption
-------------------------------	----------------------------

The Measure Q Bonds maturing on August 1, 20__ (the “**Measure Q Term Bonds**”), 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 table, at a redemption price equal to 100% of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

Measure Q Term Bonds Maturing August 1, 20__

Redemption Date (August 1)	Sinking Fund Redemption
-------------------------------	----------------------------

Selection of Bonds for Redemption. Whenever less than all of the Outstanding Bonds of any one maturity are designated for redemption, the Paying Agent will 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 will be deemed to consist of individual bonds of \$5,000 principal amount each, which may be separately redeemed.

Notice of Redemption. The Paying Agent will cause notice of any redemption to be mailed, by first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books (as hereinafter defined); but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice will not affect the validity of the proceedings for the redemption of such Bonds. In addition, notice will be provided to the Municipal Securities Rulemaking Board and each of the Securities Depositories (as such term is defined in the Bond Resolution) at least two days prior to such mailing to the Owners.

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

Partial Redemption. Upon surrender of Bonds redeemed in part only, the District will execute and the Paying Agent will authenticate and deliver to the owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

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

Right to Rescind Notice of Optional Redemption. The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption. The District and the Paying Agent shall have no liability to the Bond owners or any other party related to or arising from such rescission of redemption. The Paying Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent, except that the time period for giving the original notice of redemption shall not apply to any notice of rescission thereof.

Registration, Transfer and Exchange of Bonds

If the book-entry system as described above and in Appendix F is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Registration Books. The Paying Agent will keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the “**Registration Books**”), which will at all times be open to inspection by the District upon reasonable notice; and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the principal office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

Whenever any Bond or Bonds are surrendered for transfer, the District will execute and the Paying Agent will authenticate and deliver a new Bond or Bonds of the same series, for like

aggregate principal amount. No transfers will be required to be made (a) 15 days prior to a date established for selection of Bonds for redemption and (b) with respect to a Bond that has been selected for redemption.

Exchange. Bonds may be exchanged at the principal office of the Paying Agent for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The District may charge a reasonable sum for each new Bond issued upon any exchange. No exchanges will be required to be made (a) 15 days prior to a date established for selection of Bonds for redemption and (b) with respect to a Bond that has been selected for redemption.

Amendments to Bond Resolution

The Bond Resolution may be amended by the District Board of Trustees, without the consent of the Owners of the Bonds, for any one or more of the following purposes:

- (a) To add to the covenants and agreements of the District in the Bond Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Bond Resolution as theretofore in effect;
- (b) To confirm, as further assurance, any pledge under, and to subject to any lien or pledge created or to be created by, the Bond Resolution, of any moneys, securities or funds, or to establish any additional funds or accounts to be held under the Bond Resolution;
- (c) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution, in a manner which does not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District; or
- (d) To make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

In addition, the Board may amend the Bond Resolution from time to time for any purpose not described above, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds outstanding at the time such consent is given. Without the consent of all the Owners of such Bonds, no such modification or amendment shall permit (a) a change in the terms of maturity of the principal of any outstanding Bonds or of any interest payable thereon or a reduction in the principal amount thereof or in the rate of interest thereon, (b) a reduction of the percentage of Bonds the consent of the owners of which is required to effect any such modification or amendment, (c) a change in any of the provisions of the Bond Resolution relating to remedies of Owners of the Bonds or (d) a reduction in the amount of moneys pledged for the repayment of the Bonds, and no right or obligation of any Paying Agent may be changed or modified without its written consent.

Defeasance

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

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

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

- (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or
- (ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice.

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

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

SOURCES AND USES OF FUNDS

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

Sources of Funds

Measure P Bonds

Measure Q Bonds

Principal Amount of Bonds

Net Original Issue Premium

Total Sources

Uses of Funds

Deposit to Building Fund

Deposit to Debt Service Fund

Costs of Issuance*

Total Uses

* All estimated costs of issuance including, but not limited to, Underwriter's discount, printing costs, and fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, bond insurance premium, and the rating agencies.

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APPLICATION OF PROCEEDS OF BONDS

Building Funds

The proceeds from the sale of the Measure P Bonds, to the extent of the principal amount thereof, will be paid to the County Treasurer to the credit of the fund created and established in the Bond Resolution and known as the “El Nido Elementary School District, Election of 2020, Series A (Measure P) Building Fund” (the “**Measure P Building Fund**”), which will be accounted for as separate and distinct from all other District and County funds. The proceeds will be used solely for the purposes for which the Measure P Bonds are being issued, including for the payment of permissible costs of issuance. All interest and other gain arising from the investment of proceeds of the Measure P Bonds shall be retained in the Measure P Building Fund and used for the purposes thereof. Any amounts remaining on deposit in the Measure P Building Fund and not needed for the purposes thereof will be withdrawn from the Measure P Building Fund and transferred to the Debt Service Fund (as defined herein), to be applied to pay the principal of and interest on the Bonds. In the event that excess amounts remain on deposit in the Measure P Building Fund after payment in full of the Measure P Bonds, any such excess amounts shall be transferred to the general fund of the District, to be applied for the purposes for which the Measure P Bonds have been authorized or otherwise in accordance with the Bond Law.

The proceeds from the sale of the Measure Q Bonds, to the extent of the principal amount thereof, will be paid to the County Treasurer to the credit of the fund created and established in the Bond Resolution and known as the “El Nido Elementary School District, Election of 2020, Series A (Measure Q) Building Fund” (the “**Measure Q Building Fund**”), which will be accounted for as separate and distinct from all other District and County funds. The proceeds will be used solely for the purposes for which the Measure Q Bonds are being issued, including for the payment of permissible costs of issuance. All interest and other gain arising from the investment of proceeds of the Measure Q Bonds shall be retained in the Measure Q Building Fund and used for the purposes thereof. Any amounts remaining on deposit in the Measure Q Building Fund and not needed for the purposes thereof will be withdrawn from the Measure Q Building Fund and transferred to the Debt Service Fund, to be applied to pay the principal of and interest on the Bonds. In the event that excess amounts remain on deposit in the Measure Q Building Fund after payment in full of the Measure Q Bonds, any such excess amounts shall be transferred to the general fund of the District, to be applied for the purposes for which the Measure Q Bonds have been authorized or otherwise in accordance with the Bond Law.

Debt Service Funds

Pursuant to the Bond Resolution, the District has directed the County to establish, hold and maintain funds to be known as the “El Nido Elementary School District Election of 2020, Series A (Measure P) General Obligation Bonds Debt Service Fund” and the “El Nido Elementary School District Election of 2020, Series A (Measure Q) General Obligation Bonds Debt Service Fund” (together, the “**Debt Service Funds**”). The Debt Service Funds shall be maintained as separate accounts within the existing bond interest and redemption fund of the District, distinct from all other funds of the County and the District. All taxes levied by the County, at the request of the District, for the payment of the principal of and interest on the applicable series of Bonds shall be deposited in the applicable Debt Service Fund by the County promptly upon apportionment of said levy. In addition, the County Treasurer shall deposit into the applicable Debt Service Fund the amount of premium (if any) received by the District on the sale of the respective series of Bonds. The amount of such premium which is deposited in a

Debt Service Fund shall be applied to pay interest coming due and payable on the applicable series of Bonds on the next succeeding Interest Payment Date or Dates.

Pursuant to the Bond Resolution, the Debt Service Funds are pledged for the payment of the principal of and interest on the Bonds when and as the same become due. Amounts in the Debt Service Funds shall be transferred by the County to the Paying Agent to the extent required to pay the principal of and interest on the applicable series of Bonds when due. In addition, amounts on deposit in the Debt Service Funds shall be applied to pay the fees and expenses of the Paying Agent insofar as permitted by law, including specifically by Section 15232 of the Education Code. See also "SECURITY FOR THE BONDS - Debt Service Funds."

Investment of Proceeds of Bonds

Under California law, the District is generally required to pay all monies received from any source into the County Treasury to be held on behalf of the District. All amounts deposited into the Debt Service Funds, as well as proceeds of taxes held therein for payment of the Bonds, shall be invested at the sole discretion of the County Treasurer pursuant to law and the investment policy of the County. All amounts deposited in the Building Fund of the District shall be invested at the sole discretion of the County Treasurer. See Appendix G for the County's current Investment Policy and recent quarterly report. The County Treasurer neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District shall maintain or cause to be maintained detailed records with respect to the applicable proceeds.

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DEBT SERVICE SCHEDULE

The following table shows the annual debt service schedule with respect to the Bonds (assuming no optional redemptions). The District does not have any other outstanding general obligation bond indebtedness.

EL NIDO ELEMENTARY SCHOOL DISTRICT Bond Debt Service Schedule

Year Ending (Aug. 1)	Measure P Bonds			Measure Q Bonds			Aggregate Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
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							
2050							
Total							

SECURITY FOR THE BONDS

Ad Valorem Taxes

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

Other Bonds Payable from Ad Valorem Property Taxes. The District has no outstanding general obligation bond indebtedness. However, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* taxes levied on parcels in the District. See "PROPERTY TAXATION – Direct and Overlapping Debt Obligations" below.

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

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

Statutory Lien on Ad Valorem Tax Revenues. Pursuant to Senate Bill 222 effective January 1, 2016, voter approved general obligation bonds which are secured by *ad valorem* tax collections, including the Bonds, are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Said lien attaches automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the public agency issuing such bonds, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act.

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

Economic and other factors beyond the District's control, such as economic recession, deflation of property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property

caused by, among other eventualities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate. See “PROPERTY TAXATION – Assessed Valuations – Factors Relating to Increases/Decreases in Assessed Value.” See also below under the heading “-- Disclosure Relating to COVID-19.”

Debt Service Fund

As described herein, the County will establish the Debt Service Funds which will be established as separate funds to be maintained distinct from all other funds of the County. All taxes levied by the County for the payment of the principal of and interest on the respective series of Bonds will be deposited in the applicable Debt Service Fund by the County promptly upon receipt. The Debt Service Funds are pledged for the payment of the principal of and interest on the applicable series of Bonds when and as the same become due. The County will transfer amounts in the Debt Service Funds to the Paying Agent to the extent necessary to pay the principal of and interest on the applicable series of Bonds as the same become due and payable.

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

Not a County Obligation

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

Disclosure Relating to COVID-19

Background. The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (“**COVID-19**” or “**Coronavirus**”), which was first detected in China and has spread throughout the world, including to the United States, has been declared a Pandemic by the World Health Organization, a National Emergency by President Trump (the “**President**”) and a State of Emergency by State Governor Newsom (the “**Governor**”). The emergency has resulted in tremendous volatility in the financial markets in the United States and globally, and the likely onset of a U.S. and global recession.

The President’s declaration of a National Emergency on March 13, 2020 made available more than \$50 billion in federal resources to combat the spread of the virus. A multibillion-dollar Coronavirus relief package was signed into law by the President on March 18, 2020 providing for Medicaid expansion, unemployment benefits and paid emergency leave during the crisis. In an effort to calm the markets, the Federal Reserve lowered its benchmark interest rate to nearly zero, introduced a large bond-buying program and established emergency lending programs to banks and money market mutual funds. Further, on March 27, 2020, the United State Congress passed a third \$2 trillion relief package responding to the Coronavirus emergency, which has been signed by the President, referred to as the Coronavirus Aid, Relief, and Economic Security Act (the “**CARES Act**”). The package includes direct payments to taxpayers, jobless benefits,

assistance to hospitals and healthcare systems, \$367 billion for loans to small businesses, a \$500 billion fund to assist distressed large businesses, including approximately \$30 billion to The Education Stabilization Fund to provide Emergency Relief Grants to educational institutions and local educational agencies in their respective responses to COVID-19. This funding allocation includes approximately \$13.5 billion in formula funding to the Elementary and Secondary School Emergency Fund to make grants available to each state educational agency to facilitate K-12 schools' responses to COVID-19, of which the State will receive \$1.65 billion.

On April 9, 2020, the Federal Reserve took additional actions to provide up to \$2.3 trillion in loans to support the economy, including supplying liquidity to participating financial institutions in the SBA's Paycheck Protection Program, purchasing up to \$600 billion in loans through the Main Street Lending Program and offering up to \$500 billion in lending to states and municipalities.

On April 24, 2020, an additional \$484 billion federal aid package was signed, to provide additional funding for the local program for distressed small businesses and to provide funds for hospitals and COVID-19 testing. The legislation adds \$310 billion to the Paycheck Protection Program, increases the small business emergency grant and loan program by \$60 billion, and directs \$75 billion to hospitals and \$25 billion to a new COVID-19 testing program.

At the State level, on March 15, 2020, the Governor ordered the closing of California bars and nightclubs, the cancellation of gatherings of more than 250 and confirmed continued funding for school districts that close under certain conditions. On March 16, 2020, the State legislature passed \$1.1 billion in general purpose spending authority for emergency funds to respond to the Coronavirus crisis. On March 19, 2020, Governor Newsom issued Executive Order N-33-20, a blanket shelter-in-place order, ordering all California residents to stay home except for certain necessities and other essential purposes, which is in effect until further notice.

Pursuant to the Governor's Order N-60-20 of May 4, 2020, on May 7, 2020, the State's Public Health Officer released an order supporting the gradual movement of the State from Stage 1 to Stage 2 of "California's Pandemic Resilience Roadmap." Effective as of May 8, 2020, the order allows for entry into Stage 2, with the return of certain kinds of retail, manufacturing and other "low risk" businesses if physical distancing measures are implemented, and identifies criteria and procedures for reducing restrictions by local officers that might be less restrictive than statewide measures. The stages will be phased in gradually, and counties which have met readiness criteria and worked with the State Department of Public Health can open more workplaces as outlined by the State for variances by county.

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak, the economic impacts and actions that may be taken by governmental authorities to contain the outbreak or to treat its impacts are uncertain and cannot be predicted. Additional information with respect to events surround the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to: the Governor's office (<http://www.gov.ca.gov>) and the California Department of Public Health (<https://covid19.ca.gov>). *The District has not incorporated by reference the information on such websites, and neither the District nor the Underwriter assumes any responsibility for the accuracy of the information on such websites.*

Impacts of COVID-19 Pandemic on Global and Local Economies Cannot be Predicted; Potential Declines in State and Local Revenues. The COVID-19 public health emergency will have negative impacts on global and local economies, including the economy of the State and in the region of the District. The extent and duration of the COVID-19 emergency is currently unknown, and the reach of its impacts uncertain.

The State's revenue sources are anticipated to be materially impacted by the COVID-19 pandemic, including with respect to reductions in personal income tax receipts and capital gains tax receipts. Economic uncertainty caused by the outbreak will significantly affect California's near-term fiscal outlook, with a likely recession due to pullback in activity across wide swaths of the economy. The Governor signed the fiscal year 2020-21 State Budget on June 29, 2020, which addresses significant declines in State revenues in both the 2019-20 and budgeted fiscal years. For more detail regarding the State's budget, see Appendix A under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

In addition, in an attempt to mitigate the effects of the COVID-19 pandemic on State property taxpayers, on May 6, 2020, the Governor signed an executive order suspending penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. See "PROPERTY TAXATION – Property Tax Collection Procedures – Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes."

Impacts on California School Districts. Shelter in place orders have suspended in-person classroom instruction indefinitely throughout California schools. Most school districts (including the District) completed the 2019-20 academic year with distance learning. State law allows school districts to apply for a waiver to hold them harmless from the loss of State apportionment funding based on attendance and state instructional time penalties when they are forced to close schools due to emergency conditions. In addition, on March 13, 2020, Governor Newsom signed Executive Order N-26-20 which provides for continued State funding to school districts to support distance learning or independent study, providing subsidized school meals to low-income students, continuing payment for school district employees, and, to the extent practicable, providing for attendance calculations supervision of students during school hours, notwithstanding legal provisions to the contrary. Senate Bill 117 was passed on March 17, 2020, addressing attendance issues and instructional hour requirements, among other items, and effectively holds schools harmless from incurring funding losses that could result from these issues under existing funding formulas. For more information about education funding formulas in California, see Appendix A under the heading "DISTRICT FINANCIAL INFORMATION – Education Funding Generally."

For more information about how the District has responded to the COVID-19 emergency and the District's current assessment of the impact of the COVID-19 emergency on its finances, see Appendix A under the heading "DISTRICT GENERAL INFORMATION – District's Response to COVID-19 Emergency."

Impacts of COVID-19 Emergency Uncertain. The possible impacts that the COVID-19 emergency might have on the District's finances, programs, credit ratings on its debt obligations, local property values and the economy in general are uncertain at this time. In addition, there may be unknown consequences of the COVID-19 emergency, which the District is unable to predict.

General Obligation Bonds Secured by Ad Valorem Tax Revenues. Notwithstanding the impacts the COVID-19 emergency may have on the economy in the State, the County and the District or on the District's general purpose revenues, the Bonds described herein are voter-approved general obligations of the District payable solely from the levy and collection of *ad valorem* property taxes, unlimited as to rate or amount, and are not payable from the general fund of the District. The District cannot predict the impacts that the Coronavirus emergency might have on local property values or tax collections. See "SECURITY FOR THE BONDS – *Ad Valorem* Taxes" and "PROPERTY TAXATION – Teeter Plan; Property Tax Collections" herein.

PROPERTY TAXATION

Property Tax Collection Procedures

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

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

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the

taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes. In an attempt to mitigate the effects of the COVID-19 pandemic on State property taxpayers, on May 6, 2020, the Governor signed Executive Order N-61-20 ("**Order N-61-20**"). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent said provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Said penalties, costs and interest shall be cancelled under the conditions provided for in Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector, and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, state, or federal governmental response to COVID-19.

Disclaimer Regarding Property Tax Collection Procedures. The property tax collection procedures described above are subject to amendment based on legislation or executive order, including Order N-61-20, which may be enacted by the State legislature or declared by the Governor from time to time. The District cannot predict the impact of Order N-61-20 on property tax revenues in the County or the District, whether future amendments or orders will occur, and what impact, if any, said future amendments or orders could have on the procedures relating to the levy and collection of property taxes, and related interest and penalties.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("**SBE**") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

Historic Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the SBE, as described above. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. For a discussion of how properties currently are assessed, see Appendix B under the heading "– GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT–CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following table sets forth recent history of the assessed value in the District. For each year, assessed valuations are as of the date the equalized assessment tax roll is established, which occurs in August of each year.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
Assessed Valuations
Fiscal Year 2005-06 through Fiscal Year 2019-20**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>% Change</u>
2005-06	\$138,967,786	\$0	\$22,904,086	\$161,871,872	--
2006-07	148,613,410	0	24,526,491	173,139,901	7.0%
2007-08	158,001,816	0	25,669,919	183,671,735	6.1
2008-09	173,932,609	0	32,836,985	206,769,594	12.6
2009-10	196,424,413	0	35,944,522	232,368,935	12.4
2010-11	208,524,867	0	33,920,575	242,445,442	4.3
2011-12	207,750,836	500	34,452,083	242,203,419	(0.1)
2012-13	231,300,155	500	29,999,278	261,299,933	7.9
2013-14	245,146,664	500	29,891,980	275,039,144	5.3
2014-15	268,724,022	0	31,922,273	300,646,295	9.3
2015-16	311,158,833	0	33,988,837	345,147,670	14.8
2016-17	313,811,907	0	53,168,879	366,980,786	6.3
2017-18	324,220,425	0	53,999,348	378,219,773	3.1
2018-19	327,925,893	0	54,822,289	382,748,182	1.2
2019-20	364,862,200	0	58,243,168	423,105,368	10.5

Source: California Municipal Statistics, Inc.

Factors Relating to Increases/Decreases in Assessed Value. Economic Conditions; Disasters. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, property reclassifications, and man-made or natural disasters such as earthquakes, fires, floods and droughts. The District is located in a seismically active region. Other notable natural disasters in recent years include drought conditions throughout the State, which ended in 2017 due to record-level precipitation in late 2016 and early 2017, and wildfires in different regions of the State, and related flooding and mudslides. The most destructive of the recent wildfires, which have burned thousands of acres and destroyed thousands of homes and structures, have originated in wildlands adjacent to urban areas. Most of the District is urbanized, but portions of it are adjacent to grasslands and forested areas. In addition, according to the U.S. Drought Monitor, as of March 2020, parts of the State are experiencing abnormally dry conditions or moderate drought conditions.

Currently the world is experiencing a global pandemic as a result of the outbreak of COVID-19 which could result in an economic recession or depression that could cause general marked declines in property values. For disclosure relating to the COVID-19 emergency, see also "SECURITY FOR THE BONDS – Disclosure Relating to Coronavirus."

The District cannot predict or make any representations regarding the effects that any disasters and related conditions, have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have had on economic activity in the District or throughout the State.

Initiative for Split-Roll Approach to Property Taxation. A State constitutional amendment designated as the California Schools and Local Community Funding Act of 2020, has qualified by initiative for the November 3, 2020 ballot which, if approved by State voters by majority vote, would amend the Constitution to change to a split roll approach to determine property values for purposes of property taxation. If approved, the Constitution will be amended to provide for the reassessment to fair market value of certain commercial and industrial real properties every three years, overriding the current two percent limitation on annual assessment increases until a property changes ownership. The resulting increases in property tax revenues would be allocated among local public agencies. The District cannot predict if such initiative will be successful or the impact it might have on assessed values in the District.

Parcels by Land Use

The following table shows a breakdown of local secured property assessed value and parcels within the District by land use for fiscal year 2019-20.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
Local Secured Property Assessed Valuation and Parcels by Land Use
Fiscal Year 2019-20**

<u>Non-Residential:</u>	2019-20 Assessed Valuation⁽¹⁾	% of Total	No. of Parcels	% of Total
Agricultural/Rural	\$336,633,684	92.26%	377	72.08%
Commercial	898,914	0.25	3	0.57
Vacant Commercial	49,448	0.01	1	0.19
Industrial	17,340,445	4.75	4	0.76
Social/Religious	41,124	0.01	2	0.38
Miscellaneous	<u>241,948</u>	<u>0.07</u>	<u>54</u>	<u>10.33</u>
Subtotal Non-Residential	\$355,205,563	97.35%	441	84.32%
<u>Residential:</u>				
Single Family Residence	\$8,281,881	2.27%	38	7.27%
Mobile Home	498,718	0.14	37	7.07
2+ Residential Units	817,658	0.22	3	0.57
Vacant Residential	<u>58,380</u>	<u>0.02</u>	<u>4</u>	<u>0.76</u>
Subtotal Residential	\$9,656,637	2.65%	82	15.68%
Total	\$364,862,200	100.00%	523	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Per Parcel Assessed Valuation of Single-Family Homes

The following table sets forth the per parcel assessed valuation of single-family homes and condominium/townhomes in fiscal year 2019-20.

EL NIDO ELEMENTARY SCHOOL DISTRICT Per Parcel Assessed Valuation of Single-Family Homes Fiscal Year 2019-20

Single Family Residential	No. of Parcels	2019-20 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
	38	\$8,281,881	\$217,944	\$138,914

2019-20 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	0	0.000%	0.000%	\$ 0	0.000%	0.000%
\$25,000 - \$49,999	3	7.895	7.895	108,576	1.311	1.311
\$50,000 - \$74,999	1	2.632	10.526	62,004	0.749	2.060
\$75,000 - \$99,999	2	5.263	15.789	195,777	2.364	4.424
\$100,000 - \$124,999	8	21.053	36.842	885,312	10.690	15.113
\$125,000 - \$149,999	9	23.684	60.526	1,241,950	14.996	30.109
\$150,000 - \$174,999	2	5.263	65.789	308,984	3.731	33.840
\$175,000 - \$199,999	2	5.263	71.053	350,821	4.236	38.076
\$200,000 - \$224,999	2	5.263	76.316	442,686	5.345	43.421
\$225,000 - \$249,999	2	5.263	81.579	474,236	5.726	49.148
\$250,000 - \$274,999	2	5.263	86.842	505,576	6.105	55.252
\$275,000 - \$299,999	2	5.263	92.105	566,377	6.839	62.091
\$300,000 - \$324,999	0	0.000	92.105	0	0.000	62.091
\$325,000 - \$349,999	0	0.000	92.105	0	0.000	62.091
\$350,000 - \$374,999	0	0.000	92.105	0	0.000	62.091
\$375,000 - \$399,999	0	0.000	92.105	0	0.000	62.091
\$400,000 - \$424,999	0	0.000	92.105	0	0.000	62.091
\$425,000 - \$449,999	0	0.000	92.105	0	0.000	62.091
\$450,000 - \$474,999	0	0.000	92.105	0	0.000	62.091
\$475,000 - \$499,999	0	0.000	92.105	0	0.000	62.091
\$500,000 and greater	3	7.895	100.000	3,139,582	37.909	100.000
	38	100.000%		\$8,281,881	100.000%	

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

Reassessments and Appeals of Assessed Value

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

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

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed

because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values, adjusted for inflation, when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

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

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

Teeter Plan; Property Tax Collections

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The District participates in the Teeter Plan, and thus receives 100% of secured property taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

So long as the Teeter Plan remains in effect and the County continues to include the District in the Teeter Plan, the District’s receipt of revenues with respect to the levy of *ad valorem* property taxes on the secured roll will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan with respect to the District if the delinquency rate for all *ad valorem* property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District. With respect to general obligation bonds, county assessors are authorized to levy taxes sufficient to pay debt service on bonds coming due, including as a rate that will provide for a reserve. The District cannot represent the sufficiency of any such reserve to the extent necessary to cover delinquent taxes, to the extent the Teeter Plan were amended or discontinued.

The District cannot provide any assurances that the County will continue to maintain the Teeter Plan described above, or will have sufficient funds available to distribute the full amount of the District's share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District's or the County'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 could 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 the spread of COVID-19 or other outbreak of disease or natural or manmade disaster. See "SECURITY FOR THE BONDS – Disclosure Relating to the COVID-19."

Furthermore, the District cannot predict the impact, if any, that changes or modifications to property tax collection procedures, including Order N-61-20 which waives the collection of certain penalties and interest on delinquent property taxes resulting from the COVID-19 pandemic, might have on the County's Teeter Plan. See "PROPERTY TAXATION – Property Tax Collection Procedures" herein.

Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 68-000 (a typical tax rate area in the District) for fiscal years 2015-16 through 2019-20. The 2019-20 assessed valuation of TRA 68-000 is \$132,635,681.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 68-000)**

	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
General	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Merced Union High School District	.0477	.0459	.0384	.0325	.0342
Merced CCD SFID No. 1	<u>.0114</u>	<u>.0111</u>	<u>.0126</u>	<u>.0116</u>	<u>.0125</u>
Total Tax Rate	\$1.0591	\$1.0570	\$1.0510	\$1.0441	\$1.0467

Source: California Municipal Statistics Inc.

Top Twenty Property Taxpayers

General. The top twenty taxpayers in the District with the greatest combined assessed valuation of taxable property on the fiscal year 2019-20 tax roll, and the assessed valuations thereof, are shown below.

The more property (by assessed value) which is owned by a single taxpayer in the District, the greater amount of tax collections are exposed to weaknesses in the taxpayer's financial situation and ability or willingness to pay property taxes. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below.

EL NIDO ELEMENTARY SCHOOL DISTRICT Top 20 Secured Property Taxpayers Fiscal Year 2019-20

		2019-20	% of
<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Assessed Valuation</u>	<u>Total (1)</u>
1. Rainbow Orchards V LLC	Agricultural	\$25,213,107	6.91%
2. Antonio & Alexandrina Azevedo	Agricultural	18,452,295	5.06
3. Michael & Gerilynn De Jager, Trustees	Agricultural	18,277,695	5.01
4. Farazad Ranch LLC	Agricultural	16,503,457	4.52
5. Frank & Sons Coelho LP	Agricultural	16,472,196	4.51
6. Michael D & Wendy Vander Dussen, Trustees	Agricultural	13,323,992	3.65
7. Merced Power LLC	Power Plant	12,746,276	3.49
8. Protein Enterprises	Agricultural	10,093,622	2.77
9. Antonio & Evelyn Brasil, Trustees	Agricultural	9,697,967	2.66
10. Bradford E & Kristi J. Nyman, Trustees	Agricultural	8,954,882	2.45
11. Gomes Farms LLC	Agricultural	8,923,274	2.45
12. Edward & Cobi De Jager Family LP	Agricultural	8,921,593	2.45
13. Fresno Farming LLC	Agricultural	8,155,042	2.24
14. Rodney L. & Sharlene De Jager, Trustees	Agricultural	7,898,151	2.16
15. Edward J. & Nancy A. Silva, Trustees	Agricultural	7,695,074	2.11
16. David L. & Peggy J. Farmer	Agricultural	7,332,297	2.01
17. Gino B. & Mona F. Pedretti, Trustees	Agricultural	7,113,803	1.95
18. Diamond J Dairy	Agricultural	7,014,067	1.92
19. Tri-lest Dairy	Agricultural	6,405,086	1.76
20. Main Stone Corporation	Agricultural	6,322,888	1.73
		<u>\$225,516,764</u>	<u>61.81%</u>

(1) 2019-20 Local Secured Assessed Valuation: \$364,862,200.
Source: California Municipal Statistics, Inc.

The District's top twenty secured taxpayers represent over sixty percent of the District's total secured assessed valuation. The primary land use of such properties is agricultural use.

The District cannot predict what, if any, impact the COVID-19 pandemic or other factors might have on the operations and assessed values of the top taxpayers.

Direct and Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. for debt issued as of June 1, 2020. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

EL NIDO ELEMENTARY SCHOOL DISTRICT Statement of Direct and Overlapping Bonded Debt (Debt Issued as June 1, 2020)

2019-20 Assessed Valuation: \$423,105,368

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/20</u>
Merced Community College District School Facilities Improvement District No. 1	2.169%	\$ 623,588
Merced Union High School District	2.771	2,777,623
El Nido School District	100.000	0 (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$3,401,211
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Merced County Certificates of Participation	1.637%	\$408,940
Merced County Office of Education Certificates of Participation	1.637	158,707
TOTAL OVERLAPPING GENERAL FUND DEBT		\$567,647
 COMBINED TOTAL DEBT		 \$3,968,858 (2)

Ratios to 2019-20 Assessed Valuation:

Direct Debt (\$0)	0.00%
Total Direct and Overlapping Tax and Assessment Debt ..	0.80%
Combined Total Debt	0.94%

(1) Excludes the Bonds.

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

Source: California Municipal Statistics, Inc.

BOND INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. No representation is made as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX H for a specimen of the Policy.

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of the Bond Insurer. 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, 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 the Bond Insurer

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

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

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

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

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes, and in order for the Bonds to be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds, or may cause the Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to

the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Other Tax Considerations

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or cause the Bonds to not be "qualified tax-exempt obligations," 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, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

Form of Opinion

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Bonds in the form attached hereto as Appendix E. The District has covenanted therein, for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (an “**Annual Report**”) to the Municipal Securities Rulemaking Board not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing March 31, 2021 with the report for the 2019-20 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the “**Rule**”).

The undertaking for the Bonds is the District’s first undertaking pursuant to the Rule. In order to assist it in complying with its disclosure undertaking for the Bonds, the District has engaged Isom Advisors, a Division of Urban Futures, Inc. to serve as its dissemination agent with respect to its disclosure undertakings.

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

CERTAIN LEGAL MATTERS

Absence of Material Litigation

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

The District is routinely subject to lawsuits and claims which occur in the regular course of operating the District. 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.

Legal Opinion

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel for the District (“**Bond Counsel**”). The opinion of Bond Counsel with respect to the Bonds will be delivered in substantially the form attached hereto as Appendix D. Certain legal matters will also be passed upon for the District by Jones Hall as Disclosure Counsel (“**Disclosure Counsel**”) and for the Underwriter by Dannis Woliver Kelley, Long Beach,

California, as underwriter's counsel ("**Underwriter's Counsel**"). The fees of Bond Counsel, Disclosure Counsel and Underwriter's Counsel are contingent upon the issuance and delivery of the Bonds.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**") is expected to assign its rating of "AA" to the Bonds, based on the understanding that the Bond Insurer will deliver its Policy with respect to the Bonds. See "BOND INSURANCE."

S&P has also assigned an underlying rating of "A" to the Bonds.

Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained only from S&P. The District has provided certain additional information and materials to S&P (some of which is not material to making an investment decision in the Bonds and as such does not appear in this Official Statement). There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by S&P if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by O'Connor & Company Securities, Inc. (the "**Underwriter**").

The Underwriter has agreed to purchase the Measure P Bonds at a price of \$_____ (which is equal to the initial principal amount of the Measure P Bonds, plus net original issue premium of \$_____ and less Underwriter's discount of \$_____).

The Underwriter has agreed to purchase the Measure Q Bonds at a price of \$_____ (which is equal to the initial principal amount of the Measure Q Bonds, plus net original issue premium of \$_____ and less Underwriter's discount of \$_____).

The purchase contract relating to the Bonds provides that the Underwriter will purchase all of the Bonds (if any are purchased), and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed by the Underwriter.

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be

complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Bonds will be on file at the offices of the Paying Agent in San Francisco, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District. The District may impose charges for copying, mailing and handling.

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.

EXECUTION

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

**EL NIDO ELEMENTARY SCHOOL
DISTRICT**

By: _____
Superintendent

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APPENDIX A

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

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**EL NIDO ELEMENTARY SCHOOL DISTRICT
COUNTY OF MERCED
EL NIDO, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2019

EL NIDO ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Net Position - Fiduciary Funds	20
Notes to the Basic Financial Statements	21
<u>REQUIRED SUPPLEMENTARY INFORMATION SECTION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	49
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cafeteria Fund	50
Schedule of the Proportionate Share of the Net Pension Liability - CalSTRS	51
Schedule of the Proportionate Share of the Net Pension Liability - CalPERS	52

EL NIDO ELEMENTARY SCHOOL DISTRICT

JUNE 30, 2019

<u>TABLE OF CONTENTS (CONCLUDED)</u>	
	<u>Page</u>
<u>REQUIRED SUPPLEMENTARY INFORMATION SECTION (CONCLUDED)</u>	
Schedule of Contributions - CalSTRS	53
Schedule of Contributions - CalPERS	54
Notes to Required Supplementary Information	55
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Organization/Board of Trustees/Administration	57
Schedule of Average Daily Attendance	58
Schedule of Instructional Time	59
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	60
Schedule of Financial Trends and Analysis	61
Notes to Supplementary Information	62
<u>OTHER INDEPENDENT AUDITORS REPORTS SECTION</u>	
Independent Auditor's Report on State Compliance	63
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 <i>Government Auditing Standards</i>	67
<u>FINDINGS AND QUESTIONED COSTS SECTION</u>	
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	69
Section II - Financial Statement Findings	70
Section III - State Award Findings and Questioned Costs	71
Status of Prior Year Recommendations	72

FINANCIAL SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
El Nido Elementary School District
El Nido, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of El Nido Elementary School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 remaining fund information of El Nido Elementary School District, as of June 30, 2019, and the respective changes in financial position 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 management's discussion and analysis, the budgetary comparison information, the schedules of proportionate share of the net pension liabilities, and the schedules of contributions 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 El Nido Elementary School District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information listed in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019 on our consideration of the El Nido Elementary School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the EL Nido Elementary 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 El Nido Elementary School District's internal control over financial reporting and compliance.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2019

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

This section of El Nido Elementary School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Independent Auditor's Report presented on pages 1 through 3, and the District's financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Statement of Activities, presented on pages 14 and 15, provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The fund financial statements for governmental activities, presented on pages 16 through 19, provide information about how District services were financed in the short-term, and how much remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The remaining statement provides financial information about activities for which the District acts solely as an agent for the benefit of those outside the District.

FINANCIAL HIGHLIGHTS

- The District's overall financial status slightly declined during the course of the year, as net position decreased less than 1%.
- On the Statement of Activities, total current year expenses exceeded total current year revenues by \$3,905.
- Capital assets, net of depreciation, decreased \$72,748 due to the current year recognition of depreciation expense.
- Total long-term liabilities increased \$82,746 due to the increase in the District's net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.
- The District's P-2 average daily attendance (ADA) increased from 161 ADA in fiscal year 2017-18, up to 171 ADA in fiscal year 2018-19, an increase of 10 ADA or 6.2%.
- During fiscal year 2018-19, the District's General Fund produced an operating surplus of \$125,208 and reported a \$121,361 increase in its available reserves.
- The District maintains sufficient reserves for a district its size. It meets the state required minimum reserve for economic uncertainty of 5% of General Fund expenditures, transfers out, and other uses (total outgo). During fiscal year 2018-19, total General Fund total outgo totaled \$2,332,285. At June 30, 2019, the District had available reserves of \$951,484, which represents a reserve of 40.8%.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT

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

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

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

Reporting the District as a Whole

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

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

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

In the Statement of Net Position and the Statement of Activities, all amounts presented represent *Governmental Activities*, since the District does not provide any services that should be categorized as *Business-type Activities*.

The District's fund-based financial statements provide detailed information about the District's most significant funds.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

THE FINANCIAL REPORT (CONCLUDED)

Reporting the District's Most Significant Funds

Governmental Funds:

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

Fiduciary Funds:

Fiduciary Funds include agency funds, which are typically used by districts to maintain control over funds that are held for those outside the District.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

During fiscal year 2018-19, the District's net position decreased less than 1%, down to \$806,502.

<u>Comparative Statement of Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
<u>Assets</u>		
Deposits and Investments	\$ 1,573,977	\$ 1,625,713
Receivables	53,709	122,168
Capital Assets, net	<u>782,066</u>	<u>709,318</u>
Total Assets	<u>2,409,752</u>	<u>2,457,199</u>
<u>Deferred Outflows of Resources</u>		
Pension Deferrals	<u>567,044</u>	<u>558,565</u>
<u>Liabilities</u>		
Current	115,078	94,340
Long-term	<u>1,849,108</u>	<u>1,944,961</u>
Total Liabilities	<u>1,964,186</u>	<u>2,039,301</u>
<u>Deferred Inflows of Resources</u>		
Pension Deferrals	<u>202,203</u>	<u>169,961</u>
<u>Net Position</u>		
Net Investment in Capital Assets	759,733	704,705
Restricted	173,119	153,731
Unrestricted (Deficit)	<u>(122,445)</u>	<u>(51,934)</u>
Total Net Position	<u>\$ 810,407</u>	<u>\$ 806,502</u>

Table includes financial data of the combined governmental funds

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

The unrestricted deficit balances, presented on the previous page, are due primarily to the fact that the District is required to record a liability in its financial statements to reflect the District's proportionate share of the net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans.

<u>Comparative Statement of Changes in Net Position</u>		
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2019</u>
<u>Program Revenues</u>		
Charges for Services	\$ 3,180	\$ 3,429
Operating Grants & Contributions	580,801	593,701
<u>General Revenues</u>		
Taxes Levied	734,395	742,365
Federal & State Aid	966,352	1,215,060
Interest & Investment Earnings	20,384	31,199
Miscellaneous	88,771	41,060
Total Revenues	<u>2,393,883</u>	<u>2,626,814</u>
<u>Expenses</u>		
Instruction	1,236,091	1,301,581
Instruction-Related Services	352,318	370,339
Pupil Services	278,131	350,321
General Administration	211,662	259,813
Plant Services	276,498	322,139
Ancillary Services	992	4,427
Other Outgo	8,602	22,099
Total Expenses	<u>2,364,294</u>	<u>2,630,719</u>
Changes in Net Position	29,589	(3,905)
Net Position, Beginning	<u>780,818</u>	<u>810,407</u>
Net Position, Ending	<u>\$ 810,407</u>	<u>\$ 806,502</u>

Table includes financial data of the combined governmental funds

The District's total current year expenses exceeded total current year revenues by \$3,905.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

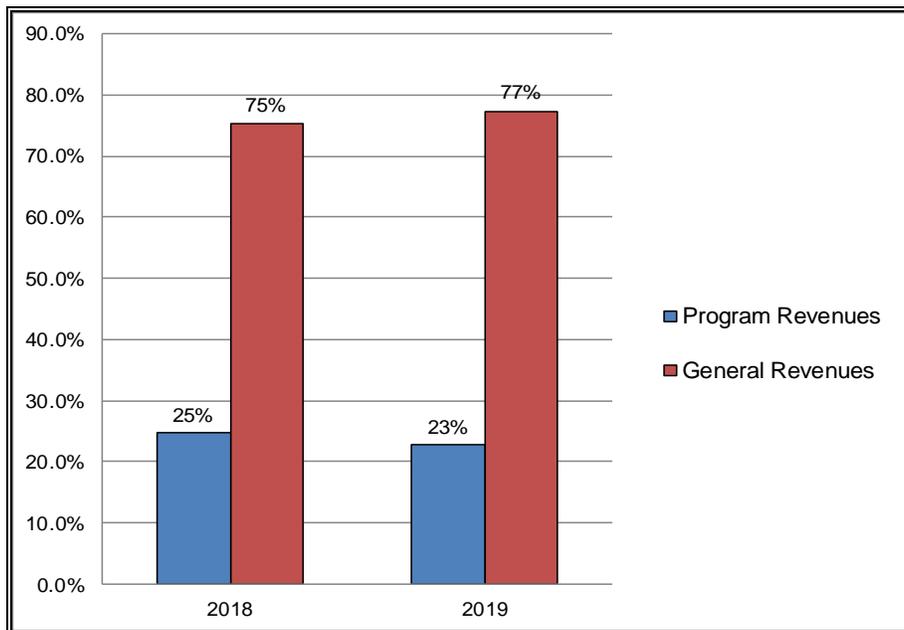
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

	Total Cost of Services		Net Cost of Services	
	2018	2019	2018	2019
Instruction	\$ 1,236,091	\$ 1,301,581	\$ 1,051,261	\$ 1,065,821
Instruction-Related Services	352,318	370,339	213,584	220,974
Pupil Services	278,131	350,321	120,522	191,945
General Administration	211,662	259,813	169,162	230,522
Plant Services	276,498	322,139	224,747	313,007
Ancillary Services	992	4,427	992	4,427
Other Outgo	8,602	22,099	45	6,893
Totals	\$ 2,364,294	\$ 2,630,719	\$ 1,780,313	\$ 2,033,589

Table includes financial data of the combined governmental funds

The table above presents the cost of major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The \$2,033,589 net cost represents the financial burden that was placed on the District's general revenues for providing the services listed.



During fiscal year 2018-19, program revenues financed 23% of the total cost of providing the services above, while the remaining 77% was financed by the general revenues of the District.

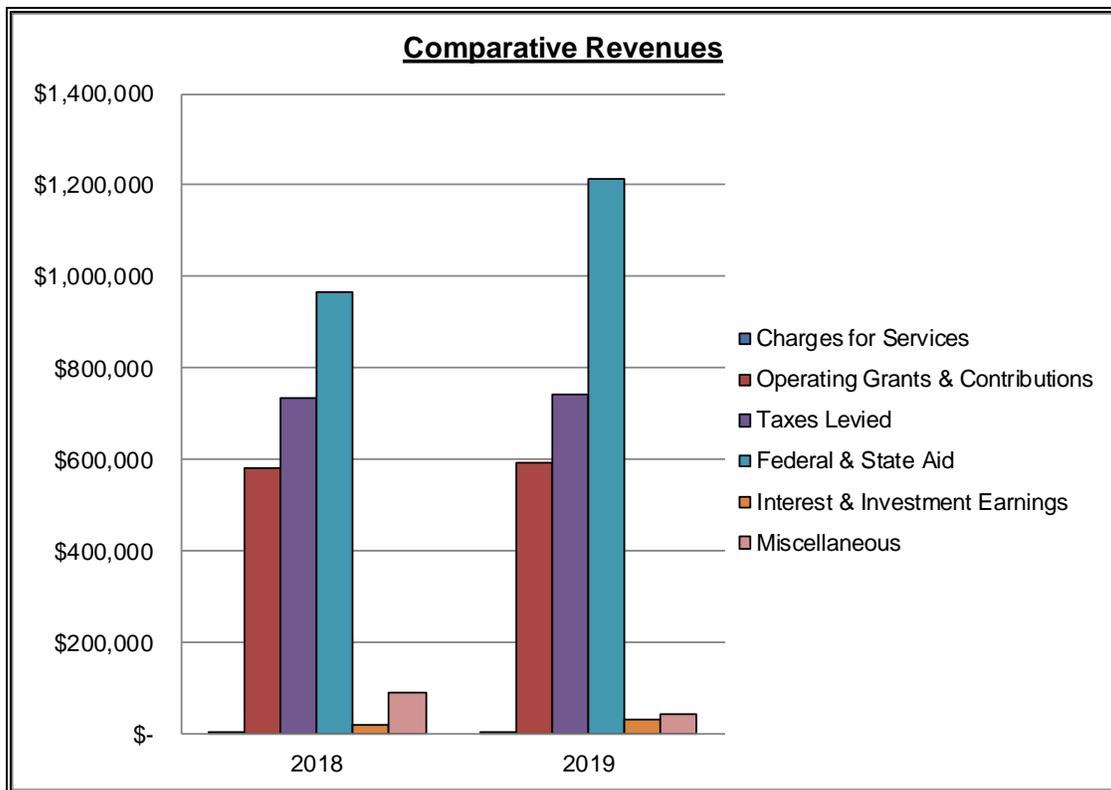
**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

<u>Summary of Revenues For Governmental Functions</u>				
	FYE 2018 Amount	Percent of Total	FYE 2019 Amount	Percent of Total
<u>Program Revenues</u>				
Charges for Services	\$ 3,180	0.13%	\$ 3,429	0.13%
Operating Grants & Contributions	580,801	24.26%	593,701	22.60%
<u>General Revenues</u>				
Taxes Levied	734,395	30.68%	742,365	28.26%
Federal & State Aid	966,352	40.37%	1,215,060	46.26%
Interest & Investment Earnings	20,384	0.85%	31,199	1.19%
Miscellaneous	88,771	3.71%	41,060	1.56%
Total Revenues	\$ 2,393,883	100.00%	\$ 2,626,814	100.00%

Table includes financial data of the combined governmental funds



**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

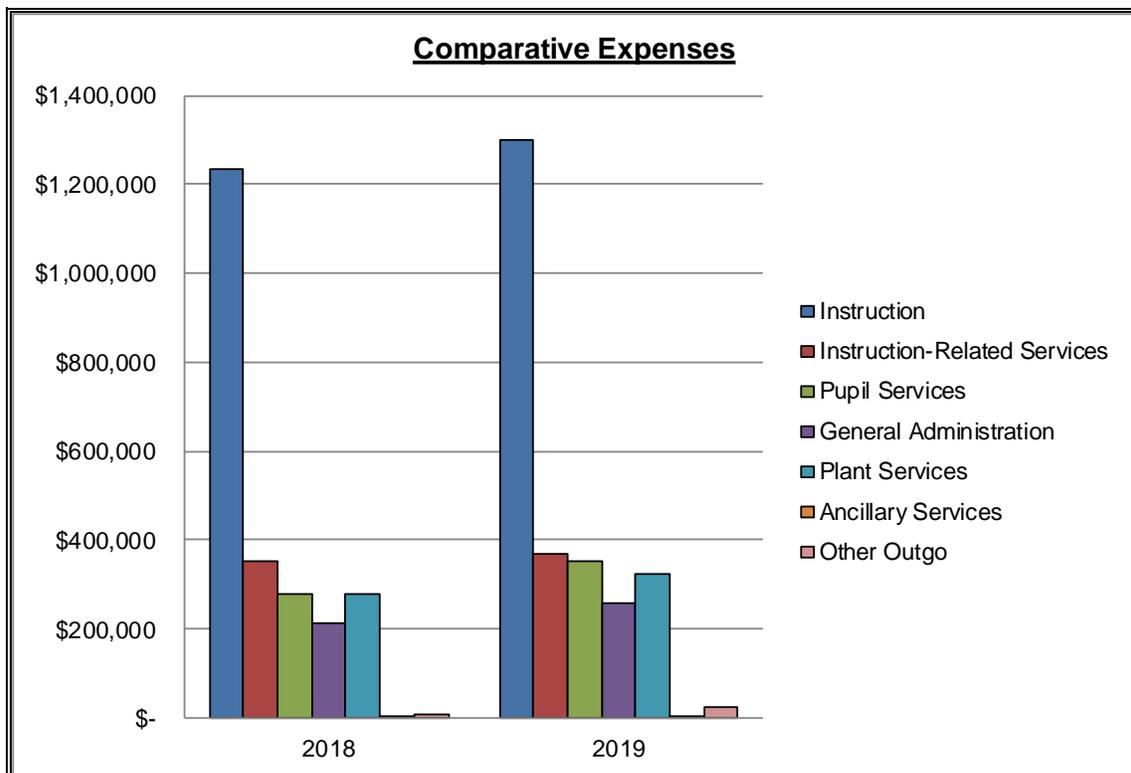
(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONTINUED)

Summary of Expenses For Governmental Functions

<u>Expenses</u>	<u>FYE 2018 Amount</u>	<u>Percent of Total</u>	<u>FYE 2019 Amount</u>	<u>Percent of Total</u>
Instruction	\$ 1,236,091	52.28%	\$ 1,301,581	49.48%
Instruction-Related Services	352,318	14.90%	370,339	14.08%
Pupil Services	278,131	11.76%	350,321	13.32%
General Administration	211,662	8.95%	259,813	9.88%
Plant Services	276,498	11.69%	322,139	12.25%
Ancillary Services	992	0.04%	4,427	0.17%
Other Outgo	8,602	0.36%	22,099	0.84%
Total Expenses	<u>\$ 2,364,294</u>	<u>100.00%</u>	<u>\$ 2,630,719</u>	<u>100.00%</u>

Table includes financial data of the combined governmental funds



**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE (CONCLUDED)

<u>Comparative Schedule of Capital Assets</u>		
	Governmental Activities	
	2018	2019
Land	\$ 34,185	\$ 34,185
Sites and Improvements	1,191,601	1,191,601
Buildings and Improvements	1,218,138	1,218,138
Furniture and Equipment	466,480	466,480
Subtotals	2,910,404	2,910,404
Less: Accumulated Depreciation	(2,128,338)	(2,201,086)
Capital Assets, net	\$ 782,066	\$ 709,318

Capital assets, net of depreciation, decreased \$72,748 due to the current year recognition of depreciation expense.

<u>Comparative Schedule of Long-Term Liabilities</u>		
	Governmental Activities	
	2018	2019
Capital Lease	\$ 22,333	\$ 4,613
Net Pension Liability - CalSTRS	1,170,128	1,206,435
Net Pension Liability - CalPERS	674,367	738,526
Totals	\$ 1,866,828	\$ 1,949,574

Total long-term liabilities increased \$82,746, due to the increase in the District's net pension liabilities related to its participation in the CalSTRS and CalPERS pension plans. The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

(PREPARED BY DISTRICT MANAGEMENT)

FINANCIAL ANALYSIS OF DISTRICT'S FUNDS

<u>Comparative Schedule of Fund Balances</u>			
	Fund Balances June 30, 2018	Fund Balances June 30, 2019	Increase (Decrease)
General	\$ 970,580	\$ 1,095,788	\$ 125,208
Cafeteria	46,400	38,294	(8,106)
Capital Facilities	70,991	72,474	1,483
Capital Projects - Special Reserve	442,357	451,598	9,241
Totals	\$ 1,530,328	\$ 1,658,154	\$ 127,826

The fund balance of the General Fund increased \$125,208, and the combined fund balances of all other District governmental funds increased \$2,618.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. Over the course of the year, the District revises its budget based on updated financial information. The original budget, approved at the end of June for July 1, is based on May Revise figures and updated 45 days after the State approves its final budget. In addition, the District revises its budget at First and Second Interim.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The employer contribution rates for CalSTRS and CalPERS will continue to increase on an annual basis for the near future. In addition, the economy has finished its tenth year of expansion, lasting five years longer than the average recovery. The Governor and Department of Finance continue to urge the Legislature and local governments, including local education agencies, to plan for the next recession.

Accordingly, the District's budget should continue to be managed with a great degree of conservatism over the next few years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, you may contact the Superintendent at El Nido Elementary School District, 161 East El Nido Rd., El Nido, California 95317-9762.

BASIC FINANCIAL STATEMENTS

EL NIDO ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
<u>Assets</u>	
Deposits and Investments (Note 2)	\$ 1,625,713
Receivables (Note 3)	122,168
Capital Assets, Not Depreciated (Note 5)	34,185
Capital Assets, Net of Accumulated Depreciation	675,133
Total Assets	2,457,199
<u>Deferred Outflows of Resources</u>	
Pension Deferrals (Note 8)	558,565
Total Deferred Outflows of Resources	558,565
<u>Liabilities</u>	
Accounts Payable and Other Current Liabilities	82,067
Unearned Revenue (Note 1H)	7,660
Long-Term Liabilities:	
<i>Portion Due or Payable Within One Year:</i>	
Capital Lease (Note 7)	4,613
<i>Portion Due or Payable After One Year:</i>	
Net Pension Liabilities (Note 8)	1,944,961
Total Liabilities	2,039,301
<u>Deferred Inflows of Resources</u>	
Pension Deferrals (Note 8)	169,961
Total Deferred Inflows of Resources	169,961
<u>Net Position</u>	
Net Investment in Capital Assets	704,705
Restricted:	
For Capital Projects	72,474
For Educational Programs	42,463
For Other Purposes	38,794
Unrestricted (Deficit)	(51,934)
Total Net Position	\$ 806,502

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**EL NIDO ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>					
Instruction	\$ 1,301,581		\$ 235,760		\$ (1,065,821)
Instruction-Related Services:					
Supervision of Instruction	153,614		137,415		(16,199)
Instructional Library and Technology	10,370				(10,370)
School Site Administration	206,355		11,950		(194,405)
Pupil Services:					
Home-to-School Transportation	155,023		3,882		(151,141)
Food Services	166,308	\$ 3,240	146,721		(16,347)
Other Pupil Services	28,990		4,533		(24,457)
General Administration:					
Data Processing Services	10,240				(10,240)
Other General Administration	249,573	162	29,129		(220,282)
Plant Services	322,139	27	9,105		(313,007)
Ancillary Services	4,427				(4,427)
Interest on Long-Term Debt	358				(358)
Other Outgo	21,741		15,206		(6,535)
Total Governmental Activities	\$ 2,630,719	\$ 3,429	\$ 593,701	\$ 0	(2,033,589)
<u>General Revenues</u>					
Taxes Levied for General Purposes					742,365
Federal and State Aid - Unrestricted					1,215,060
Interest and Investment Earnings					31,199
Miscellaneous					41,060
Total General Revenues					2,029,684
Change in Net Position					(3,905)
Net Position - July 1, 2018					810,407
Net Position - June 30, 2019					\$ 806,502

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**EL NIDO ELEMENTARY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>General</u>	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Deposits and Investments (Note 2)	\$ 1,063,345	\$ 38,296	\$ 72,474	\$ 451,598	\$ 1,625,713
Receivables (Note 3)	106,283	15,885			122,168
Due from Other Funds (Note 4)	13,182				13,182
Total Assets	<u>\$ 1,182,810</u>	<u>\$ 54,181</u>	<u>\$ 72,474</u>	<u>\$ 451,598</u>	<u>\$ 1,761,063</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 79,362	\$ 2,705			\$ 82,067
Due to Other Funds (Note 4)		13,182			13,182
Unearned Revenue (Note 1H)	7,660				7,660
Total Liabilities	<u>87,022</u>	<u>15,887</u>			<u>102,909</u>
Fund Balances: (Note 10)					
Nonspendable	500				500
Restricted	42,463	38,294	\$ 72,474		153,231
Assigned	101,341			\$ 451,598	552,939
Unassigned	951,484				951,484
Total Fund Balances	<u>1,095,788</u>	<u>38,294</u>	<u>72,474</u>	<u>451,598</u>	<u>1,658,154</u>
Total Liabilities and Fund Balances	<u>\$ 1,182,810</u>	<u>\$ 54,181</u>	<u>\$ 72,474</u>	<u>\$ 451,598</u>	<u>\$ 1,761,063</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**EL NIDO ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balances - Governmental Funds \$ 1,658,154

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

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

Capital Assets	\$ 2,910,404	
Accumulated Depreciation	(2,201,086)	
Net		709,318

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

388,604

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Capital Lease	\$ 4,613	
Net Pension Liability - CalSTRS	1,206,435	
Net Pension Liability - CalPERS	738,526	
Total		(1,949,574)

Total Net Position - Governmental Activities \$ 806,502

**EL NIDO ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>General</u>	<u>Cafeteria</u>	<u>Capital Facilities</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>					
LCFF Sources:					
State Apportionment / Transfers	\$ 1,151,572				\$ 1,151,572
Local Taxes	742,365				742,365
Total LCFF Sources	1,893,937				1,893,937
Federal Revenue	93,695	\$ 143,248			236,943
State Revenue	405,227	11,057			416,284
Local Revenue	64,634	4,292	\$ 1,483	\$ 9,241	79,650
Total Revenues	<u>2,457,493</u>	<u>158,597</u>	<u>1,483</u>	<u>9,241</u>	<u>2,626,814</u>
<u>Expenditures</u>					
Current:					
Instruction	1,241,813				1,241,813
Supervision of Instruction	149,245				149,245
Instructional Library and Technology	1,393				1,393
School Site Administration	192,485				192,485
Home-To-School Transportation	140,635				140,635
Food Services		157,622			157,622
Other Pupil Services	26,752				26,752
Data Processing Services	9,954				9,954
Other General Administration	226,365	7,789			234,154
Plant Services	299,397	1,292			300,689
Ancillary Services	4,427				4,427
Other Outgo	21,741				21,741
Debt Service:					
Principal Retirement	17,720				17,720
Interest and Issuance Costs	358				358
Total Expenditures	<u>2,332,285</u>	<u>166,703</u>	<u>0</u>	<u>0</u>	<u>2,498,988</u>
Net Change in Fund Balances	125,208	(8,106)	1,483	9,241	127,826
Fund Balances - July 1, 2018	<u>970,580</u>	<u>46,400</u>	<u>70,991</u>	<u>442,357</u>	<u>1,530,328</u>
Fund Balances - June 30, 2019	<u>\$ 1,095,788</u>	<u>\$ 38,294</u>	<u>\$ 72,474</u>	<u>\$ 451,598</u>	<u>\$ 1,658,154</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**EL NIDO ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net Change in Fund Balances - Governmental Funds \$ 127,826

Amounts reported for governmental activities in the statement of activities are different due to the following:

Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. The amount that capital outlay exceeded depreciation expense was:

Capital Outlays	\$	0	
Depreciation Expense		<u>(72,748)</u>	
Net			(72,748)

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

Capital Lease			17,720
---------------	--	--	--------

Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual-basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:

(76,703)

Change in Net Position of Governmental Activities \$ (3,905)

**EL NIDO ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

	Agency Funds	Total Fiduciary Funds
<u>Assets</u>		
Deposits and Investments (Note 2)	\$ 6,541	\$ 6,541
Total Assets	6,541	6,541
<u>Liabilities</u>		
Due to Student Groups	6,541	6,541
Total Liabilities	6,541	6,541
<u>Net Position</u>		
Restricted	0	0
Total Net Position	\$ 0	\$ 0

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The El Nido Elementary School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five-member Board of Trustees elected by registered voters of the District, which comprises an area in Merced County. The District was established in 1911 and serves students in kindergarten through grade eight.

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

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity under Governmental Accounting Standards Board (GASB) Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus*. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters), the scope of public service, and a special financing relationship. The District has determined that there are no organizations, with financial activities that benefit the District, which should be included within its financial reporting entity under GASB 61.

The District has also reviewed criteria to determine whether other organizations, for which the District is not financially accountable, should be reported within its financial reporting entity, based on the nature and significance of its relationship with the District, under GASB Statement No. 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*. In order for an organization to be classified as a component unit, all of the GASB 39 criteria must be met, as follows:

- The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the primary government or its component units.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization.
- The economic resources received or held by the organization that the primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The District has determined that there are no organizations, for which the District is not financially accountable, which should be reported within its financial reporting entity under GASB 39.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

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

Fund Financial Statements:

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

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

C. Basis of Accounting

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

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45, 60, 90 days after year-end, depending on the revenue source. 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 apportionments, the California Department of Education has defined available as collectible within one year.

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

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

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

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting

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

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The District's accounts are organized into major and fiduciary funds as follows:

Major Governmental Funds:

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

Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.

Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provision of the California Environmental Quality Act (CEQA).

Capital Projects - Special Reserve Fund is used to set aside funding for special projects as determined by the governing board of the District.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains two agency funds for the school's Student Council and for the Christmas Food Basket. The District maintains the Student Council fund, which is used to account for the raising and expending of money to promote the general welfare, and educational experience of the student body, and the Christmas Food Basket, which is used to provide community outreach by raising and collecting funds for those in need in the community and designated by the District.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting

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

These budgets are revised by the District's Governing Board and Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the General Fund and Cafeteria Fund as required supplementary information on pages 49 and 50.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

F. Use of Estimates

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

G. Encumbrances

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

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity

1. Deposits and Investments

The District is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC).

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 County is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the County are either secured by the FDIC or are collateralized.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

1. Deposits and Investments (Concluded)

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.

Investments 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.

2. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	20
Buildings and Improvements	20-50
Furniture and Equipment	5-20

3. Deferred Outflows/Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometime report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

4. Unearned Revenue

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

5. Pensions

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

6. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Position. In fund financial statements, the face amount of the obligation is reported as other financing sources in the year of issuance.

7. Fund Balances

Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

7. Fund Balances (Concluded)

Committed Fund Balance consists of funds that are set aside for a specific purpose by the district's highest level of decision-making authority (Governing Board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision-making authority or a body or official that has been given the authority to assign funds. In accordance with board resolution, the Superintendent has been given this authority.

Unassigned Fund Balance consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. In accordance with board resolution, the District intends to maintain a Reserve for Economic Uncertainties equal to no less than two (2) months of General Fund operating expenditures, or 5% of the General Fund's annual total expenditures and other financing uses. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

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

8. Local Control Funding Formula (LCFF)/Property Tax

The formula for determining the level of funding per student is the "Local Control Funding Formula" (LCFF). District funding under the LCFF is generally provided by a mix of State aid and local property taxes.

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

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

8. Local Control Funding Formula (LCFF)/Property Tax (Concluded)

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

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the District. The California Department of Education reduces the District's LCFF entitlement by the District's local property tax revenue. Any balance remaining is paid from the State General Fund and is known as LCFF State Aid.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019 were as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash on Hand and in Banks		\$ 6,541
Cash in Revolving Funds	\$ 500	
County Pool Investments	<u>1,625,213</u>	
Total Deposits and Investments	<u>\$ 1,625,713</u>	<u>\$ 6,541</u>

Cash on Hand and in Banks / Cash in Revolving Funds

Cash on hand and in banks and cash in revolving funds consist of cash held by the District and cash maintained in commercial bank accounts owned by the District.

County Pool Investments

County pool investments consist of District cash held by the Merced County Treasury that is invested in the county investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts that are 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.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule 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 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 investing in the County investment pool.

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:

Investment Type	Carrying Value	Fair Value	Weighted Average Days to Maturity
County Pool Investments	\$ 1,625,213	\$ 1,631,335	487

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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. Investments in the County Treasury are not required to be rated.

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 Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the District's bank balance was not exposed to custodial credit risk.

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 specific 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 reasonable 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.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

Fair Value Measurements (Concluded)

Uncategorized - Investments in the Merced 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.

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

Investment Type	Fair Value	Uncategorized
County Pool Investment	\$ 1,631,335	\$ 1,631,335

All assets have been valued using a market approach, with quoted market prices.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2019 consist of the following:

	General Fund	Cafeteria Fund	Totals
Federal Government	\$ 26,213	\$ 14,882	\$ 41,095
State Government	49,906	1,003	50,909
Miscellaneous	30,164		30,164
Totals	\$ 106,283	\$ 15,885	\$ 122,168

NOTE 4 - INTERFUND ACTIVITIES

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances at June 30, 2019 are as follows:

Funds	Interfund Receivable	Interfund Payable
General	\$ 13,182	
Cafeteria		\$ 13,182
Totals	\$ 13,182	\$ 13,182

All interfund receivables and payables are scheduled to be paid within one year.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2019, is shown below:

	Balances July 1, 2018	Additions	Deletions	Balances June 30, 2019
Capital Assets Not Being Depreciated:				
Land	\$ 34,185	\$ 0	\$ 0	\$ 34,185
Capital Assets Being Depreciated:				
Sites and Improvements	1,191,601	-	-	1,191,601
Buildings and Improvements	1,218,138	-	-	1,218,138
Furniture and Equipment	466,480	-	-	466,480
Total Capital Assets Being Depreciated	2,876,219	0	0	2,876,219
Less Accumulated Depreciation:				
Sites and Improvements	736,690	36,719	-	773,409
Buildings and Improvements	1,036,984	14,649	-	1,051,633
Furniture and Equipment	354,664	21,380	-	376,044
Total Accumulated Depreciation	2,128,338	72,748	0	2,201,086
Total Capital Assets Being Depreciated, Net	747,881	(72,748)	0	675,133
Governmental Activities Capital Assets, Net	\$ 782,066	\$ (72,748)	\$ 0	\$ 709,318

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 36,358
Instruction-Related Services	10,346
Pupil Services	9,787
General Administration	7,258
Plant Services	8,999
Total	<u>\$ 72,748</u>

NOTE 6 - OPERATING LEASES

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration dates. The District will receive no sublease rental revenues, nor pay any contingent rentals for this equipment.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - CAPITAL LEASE

The District leases computer equipment valued at \$13,800 under a lease-purchase agreement, which provides for title to pass upon expiration of the lease term. Future minimum lease payments under this agreement are as follows:

Year Ended <u>June 30</u>	Lease <u>Payments</u>
2020	\$ 4,795
Less amounts representing interest	<u>(182)</u>
Present value of net minimum lease payments	<u>\$ 4,613</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the leased equipment.

NOTE 8 - RETIREMENT PLANS

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

The District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense in the accompanying government-wide financial statement as follows:

<u>Pension Plan</u>	<u>Net Pension Liabilities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 1,206,435	\$ 341,655	\$ 119,233	\$ 245,495
CalPERS	<u>738,526</u>	<u>216,910</u>	<u>50,728</u>	<u>164,722</u>
Totals	<u>\$ 1,944,961</u>	<u>\$ 558,565</u>	<u>\$ 169,961</u>	<u>\$ 410,217</u>

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers and certain other employees of the public-school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature and Governor, established the plan and CalSTRS as the administrator. The terms of the plan may be amended through legislation. CalSTRS issues publicly available reports that include a full description of the pension plan that can be found on the CalSTRS website.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California 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 STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform services that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform services that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas and some of the differences are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to a maximum of 2.4% at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2% to the age factor, up to the 2.4% maximum.

CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0% of final compensation multiplied by the number of years of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4% at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and are detailed in the Teachers' Retirement Law. A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Pursuant to AB 1469, the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2018-19. Under CalSTRS 2% at 62, the member contribution rate was 10.205% of applicable member earnings for fiscal year 2018-19.

Employers: Pursuant to AB 1469, the employer contribution rate was 16.28% of applicable member earnings for fiscal year 2018-19. The District contributed \$123,559 to the plan for the fiscal year ended June 30, 2019.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2019 was 5.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 9.828% for the fiscal year ended June 30, 2019.

District's Proportionate Share of the Net Pension Liability, Pension Expense, 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 associated with the District was as follows:

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)

District's proportionate share of the net pension liability	\$ 1,206,435
State's proportionate share of the net pension liability associated with the District	<u>690,741</u>
Total net pension liability attributed to District	<u><u>\$ 1,897,176</u></u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating employers and the State. The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0013%
Proportion - June 30, 2017	<u>0.0013%</u>
Change - Increase (Decrease)	<u><u>0.0000%</u></u>

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$245,495, which includes \$110,112 of 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	\$ 123,559	
Differences between expected and actual experience	3,605	\$ 17,625
Changes of assumptions	180,645	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	33,846	57,676
Net differences between projected and actual earnings on plan investments		<u>43,932</u>
Totals	<u><u>\$ 341,655</u></u>	<u><u>\$ 119,233</u></u>

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

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

Year Ended June 30		
2020	\$	33,817
2021		15,686
2022		(15,311)
2023		19,091
2024		40,115
2025		5,465

Differences between expected and actual experience, changes of assumptions, and changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2018. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. In determining the total pension liability, the financial reporting actuarial valuation used the following methods and assumptions:

Valuation Date	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return ¹	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

¹ Net of investment expenses, but gross of administrative expenses.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Concluded)

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 of 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% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private Equity	13%	9.30%
Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash / Liquidity	2%	-1.00%
Total	<u>100%</u>	

* 20-year average

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Concluded)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers are made at statutory contribution rates as previously described. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the 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 the total pension liability.

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

The following table presents the District's proportionate share of the net pension liability as of the measurement date, calculated using the current discount rate of 7.10%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

	Discount Rate 1% Decrease 6.10%	Discount Rate Current Rate 7.10%	Discount Rate 1% Increase 8.10%
District's proportionate share of the net pension liability	\$ 1,767,287	\$ 1,206,435	\$ 741,435

Pension Plan's Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

B. California Public Employees' Retirement System (CalPERS)

Plan Description, Benefits Provided, and Employees Covered

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Plan Description, Benefits Provided, and Employees Covered (Concluded)

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 7.0% of their salary. The District's contractually required contribution rate for the fiscal year ended June 30, 2019 was 18.062% of annual payroll. The District's contribution to CalPERS for the fiscal year ended June 30, 2019 was \$74,801.

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2019, the District reported a liability of \$738,526 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2018 and June 30, 2017 was as follows:

Proportion - June 30, 2018	0.0028%
Proportion - June 30, 2017	0.0028%
Change - Increase (Decrease)	0.0000%

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

District's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

For the fiscal year ended June 30, 2019, the District recognized pension expense of \$164,722, which includes \$25,041 of 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
District contributions subsequent to the measurement date	\$ 74,801	
Differences between expected and actual experience	49,319	
Changes of assumptions	75,019	
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		\$ 50,728
Net differences between projected and actual earnings on plan investments	17,771	
Totals	\$ 216,910	\$ 50,728

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

Year Ended June 30	
2020	\$ 60,161
2021	39,376
2022	(3,797)
2023	(4,359)

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2018. The net difference between projected and actual earnings on pension plan investments is amortized over a 5-year period on a straight-line basis.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Actuarial Assumptions

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

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Wage Growth	Varies
Investment Rate of Return	7.15%
Post Retirement Benefit Increase (1)	

(1) 2.00% until Purchasing Power Protection Allowance Floor
on Purchasing Power applies, 2.50% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study from 1997 to 2015. Further details of the experience study can be found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments were applied to all periods of projected benefit payments to determine the total pension liability.

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

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Concluded)

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

<u>Asset Class (1)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10 (2)</u>	<u>Real Return Years 11+ (3)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100%</u>		

(1) In the CalPERS CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	<u>Discount Rate 1% Decrease 6.15%</u>	<u>Discount Rate Current Rate 7.15%</u>	<u>Discount Rate 1% Increase 8.15%</u>
District's proportionate share of the net pension liability	\$ 1,075,259	\$ 738,526	\$ 459,158

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - RETIREMENT PLANS (CONCLUDED)

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan. Contributions made by the District and participating employees vest immediately. The District and participating employees are both required to contribute 6.2% of employee gross earnings.

NOTE 9 - LONG-TERM LIABILITIES

	Balances July 1, 2018	Additions	Deductions	Balances June 30, 2019	Due within One Year
Long-Term Debt:					
Capital Lease	\$ 22,333		\$ 17,720	\$ 4,613	\$ 4,613
Other Long-Term Liabilities:					
Net Pension Liability - CalSTRS	1,170,128	\$ 36,307		1,206,435	
Net Pension Liability - CalPERS	674,367	64,159		738,526	
Totals	\$ 1,866,828	\$ 100,466	\$ 17,720	\$ 1,949,574	\$ 4,613

All long-term liabilities are primarily obligations of the General Fund.

NOTE 10 - FUND BALANCES

The District's fund balances at June 30, 2019 consisted of the following:

	General Fund	Cafeteria Fund	Capital Facilities Fund	Capital Projects - Special Reserve Fund	Totals
Nonspendable:					
Revolving Cash	\$ 500				\$ 500
Restricted:					
Categorical Programs	42,463				42,463
Food Service Programs		\$ 38,294			38,294
Capital Projects			\$ 72,474		72,474
Total Restricted	42,463	38,294	72,474		153,231
Assigned:					
Local Program Goals	101,341				101,341
Capital Outlay Projects				\$ 451,598	451,598
Total Assigned	101,341	0	0	451,598	552,939
Unassigned:					
Reserve for Economic Uncertainties	166,480				166,480
Remaining Unassigned Balance	785,004				785,004
Total Unassigned	951,484	0	0	0	951,484
Totals	\$ 1,095,788	\$ 38,294	\$ 72,474	\$ 451,598	\$ 1,658,154

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to the State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) for K-12 Education. These payments consist of state general fund contributions of \$110,112 to CalSTRS and \$25,041 to CalPERS.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 8, the District has a pay-as-you-go policy for post-retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. These benefits are reimbursed to the District by the employee; therefore, there are no post employment benefit obligations for this District at June 30, 2019.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018-19, the District participated in two joint powers agreements (JPAs) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage for each of the past three years.

NOTE 14 - JOINT VENTURES

The District participates in two joint ventures under joint powers agreements (JPAs) with the Merced County School Insurance Group I (MCSIG I), which provides workers' compensation for its member school districts and the Central Region School Insurance Group (CRSIG), which provides general liability insurance coverage to its member school districts. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPAs.

Each JPA is audited on an annual basis. Complete financial statements for MCSIG I may be obtained from the Merced County Office of Education, 632 West 13th Street, Merced, California 95341. Complete financial statements for CRSIG may be obtained from Central Region School Insurance Group, 4101 Tully Road, Suite 501, Modesto, California 95356.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards and Grants

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

B. Litigation

The District is subject to various legal proceedings and claims. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

NOTE 16 - SUBSEQUENT EVENTS

The District's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 6, 2019, which is the date the financial statements were available to be issued. Management has determined that there was no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
LCFF Sources:				
State Apportionment / Transfers	\$ 1,050,262	\$ 1,186,065	\$ 1,151,572	\$ (34,493)
Local Sources	733,306	763,772	742,365	(21,407)
Total LCFF Sources	1,783,568	1,949,837	1,893,937	(55,900)
Federal Revenue	115,148	106,234	93,695	(12,539)
Other State Revenue	303,194	404,431	405,227	796
Other Local Revenue	36,609	49,609	64,634	15,025
Total Revenues	2,238,519	2,510,111	2,457,493	(52,618)
<u>Expenditures</u>				
Current:				
Certificated Salaries	744,254	772,344	797,319	(24,975)
Classified Salaries	416,217	418,112	447,199	(29,087)
Employee Benefits	493,940	555,987	559,102	(3,115)
Books and Supplies	160,237	188,335	117,330	71,005
Services and Other				
Operating Expenditures	396,303	444,573	379,305	65,268
Capital Outlay		29,000		29,000
Debt Service:				
Principal Retirement	17,720	17,720	17,720	
Interest and Fiscal Charges	358	358	358	
Other Expenditures	3,334	1,746	13,952	(12,206)
Total Expenditures	2,232,363	2,428,175	2,332,285	95,890
Net Change in Fund Balances	6,156	81,936	125,208	\$ 43,272
Fund Balances - July 1, 2018	970,580	970,580	970,580	
Fund Balances - June 30, 2019	\$ 976,736	\$ 1,052,516	\$ 1,095,788	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CAFETERIA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Federal Revenue	\$ 128,462	\$ 128,462	\$ 143,248	\$ 14,786
Other State Revenue	8,597	8,597	11,057	2,460
Other Local Revenue	3,220	3,220	4,292	1,072
Total Revenues	<u>140,279</u>	<u>140,279</u>	<u>158,597</u>	<u>18,318</u>
<u>Expenditures</u>				
Current:				
Classified Salaries	29,343	30,263	34,597	(4,334)
Employee Benefits	11,445	11,823	12,861	(1,038)
Food and Supplies	100,300	101,000	107,137	(6,137)
Services and Other				
Operating Expenditures	5,225	5,225	4,319	906
Other Expenditures	5,223	5,258	7,789	(2,531)
Total Expenditures	<u>151,536</u>	<u>153,569</u>	<u>166,703</u>	<u>(13,134)</u>
Net Change in Fund Balances	(11,257)	(13,290)	(8,106)	<u>\$ 5,184</u>
Fund Balances - July 1, 2018	<u>46,400</u>	<u>46,400</u>	<u>46,400</u>	
Fund Balances - June 30, 2019	<u>\$ 35,143</u>	<u>\$ 33,110</u>	<u>\$ 38,294</u>	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

EL NIDO ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS *

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to District	Total NPL Attributed to District	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0013%	\$ 1,206,435	\$ 690,741	\$ 1,897,176	\$ 698,753	172.66%	70.99%
2018	0.0013%	1,170,128	692,238	1,862,366	670,588	174.49%	69.46%
2017	0.0013%	1,039,506	725,078	1,764,584	640,522	162.29%	70.04%
2016	0.0014%	920,554	600,933	1,521,487	634,651	145.05%	74.02%
2015	0.0014%	821,410	529,834	1,351,244	626,073	131.20%	76.52%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

EL NIDO ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS *

JUNE 30, 2019

Year Ended June 30	District's Proportion of the NPL	District's Proportionate Share of the NPL	District's Covered Payroll	District's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2019	0.0028%	\$ 738,526	\$ 365,340	202.15%	70.85%
2018	0.0028%	674,367	360,225	187.21%	71.87%
2017	0.0033%	654,316	397,459	164.62%	73.90%
2016	0.0034%	500,140	375,644	133.14%	79.43%
2015	0.0029%	328,185	303,470	108.14%	83.38%

* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALSTRS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2019	\$ 123,559	\$ 123,559	\$ 0	\$ 758,962	16.28%
2018	102,835	102,835	0	712,647	14.43%
2017	84,210	84,210	0	669,396	12.58%
2016	69,560	69,560	0	648,276	10.73%
2015	55,174	55,174	0	621,329	8.88%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - CALPERS *
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	District's Covered Payroll	Contributions As a % of Covered Payroll
2019	\$ 74,801	\$ 74,801	\$ 0	\$ 414,135	18.062%
2018	56,741	56,741	0	365,340	15.531%
2017	50,565	50,565	0	364,091	13.888%
2016	47,087	47,087	0	397,459	11.847%
2015	41,729	41,729	0	354,507	11.771%

* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the District is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the General Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object. The basis of budgeting is the same as Generally Accepted Accounting Principles (GAAP).

Excess of expenditures over appropriations as of June 30, 2019 were as follows:

<u>General Fund</u>	<u>Excess Expenditures</u>
Certificated Salaries	\$ 24,975
Classified Salaries	29,087
Employee Benefits	3,115
Other Expenditures	12,206
<u>Cafeteria Fund</u>	
Classified Salaries	4,334
Employee Benefits	1,038
Food and Supplies	6,137
Other Expenditures	2,531

The District incurred unanticipated expenditures in excess of appropriations in each of the above expenditure classifications for which the budget was not revised.

B. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the District's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the District, if applicable, the District's covered payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

C. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the District is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required District contribution, the amount of contributions recognized by the pension plan in relation to the required District contribution, the difference between the required District contribution and the amount recognized by the pension plan, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation of the District as a percentage of the District's covered payroll.

NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF CHANGES FOR CALSTRS AND CALPERS

Benefit Terms

There were no changes to benefit terms since the previous valuation for either the State Teachers' Retirement Plan (CalSTRS) or the Public Employer's Retirement Fund B (CalPERS).

Changes in Assumptions

During fiscal year 2017-18, demographic assumptions and inflation rate were changed in accordance with the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

As a result of the study, CalPERS also changed the following assumption used in determining the NPL as follows:

<u>Assumption</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>
Inflation	2.50%	2.75%

There were no changes in assumptions since the previous valuation for CalSTRS.

SUPPLEMENTARY INFORMATION SECTION

**EL NIDO ELEMENTARY SCHOOL DISTRICT
ORGANIZATION/BOARD OF TRUSTEES/ADMINISTRATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

ORGANIZATION

The El Nido Elementary School District was established in 1911 and is comprised of an area of approximately 64 square miles located in Merced County and a portion in Madera County. There were no changes in the boundaries of the District during the current year. The District is currently operating one elementary school.

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bobby Borba	President	November 2022
Corey Fagundes	Clerk	November 2020
Barbara Greninger	Trustee	November 2022
Mike Anderson	Trustee	November 2020
Liliana Rojas	Trustee	November 2022

ADMINISTRATION

Rae Ann Jimenez
Superintendent

EL NIDO ELEMENTARY SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

P-2 Report				
	TK / K - 3	4 - 6	7 - 8	Total
Regular	73.53	64.13	33.69	171.35

Annual Report				
	TK / K - 3	4 - 6	7 - 8	Total
Regular	72.72	63.42	33.27	169.41

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

<u>Grade Level</u>	<u>Minutes Required</u>	<u>2018-19 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	36,000	57,660	180	N/A	In Compliance
Grade 1	50,400	57,660	180	N/A	In Compliance
Grade 2	50,400	57,660	180	N/A	In Compliance
Grade 3	50,400	57,660	180	N/A	In Compliance
Grade 4	54,000	57,660	180	N/A	In Compliance
Grade 5	54,000	57,660	180	N/A	In Compliance
Grade 6	54,000	57,660	180	N/A	In Compliance
Grade 7	54,000	57,660	180	N/A	In Compliance
Grade 8	54,000	57,660	180	N/A	In Compliance

**EL NIDO ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	General Fund	Special Revenue - Special Reserve Fund
June 30, 2019 Annual Financial and Budget Report Fund Balances	\$ 1,092,567	\$ 3,221
Reclassifications Increasing (Decreasing) Fund Balances:		
Reclassification of Fund Balances	3,221	(3,221)
June 30, 2019 Audited Financial Statements Fund Balances	\$ 1,095,788	\$ 0

Auditor's Comments

The fund balances of the General Fund and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2019.

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	GENERAL FUND			
	(Budget) 2019-20	2018-19	2017-18	2016-17
Revenues and Other Financial Sources	\$ 2,448,265	\$ 2,457,493	\$ 2,232,222	\$ 2,139,527
Expenditures	2,317,849	2,332,285	2,102,132	2,255,203
Other Uses and Transfers Out	0	0	0	0
Total Outgo	2,317,849	2,332,285	2,102,132	2,255,203
Change in Fund Balance	130,416	125,208	130,090	(115,676)
Ending Fund Balance	\$ 1,226,204	\$ 1,095,788	\$ 970,580	\$ 840,490
Available Reserves	\$ 1,084,803	\$ 951,484	\$ 830,123	\$ 778,689
Reserve for Economic Uncertainties	\$ 165,520	\$ 166,480	\$ 149,338	\$ 155,076
Available Reserves as a Percentage of Total Outgo	46.8%	40.8%	39.5%	34.5%
Average Daily Attendance at P-2	171	171	161	157
Total Long-Term Liabilities	\$ 1,944,961	\$ 1,949,574	\$ 1,866,828	\$ 1,720,388

* Reported balances are a component of available reserves.

The fund balance of the General Fund increased \$255,298 (30.4%) over the past two years. The fiscal year 2019-20 budget projects an increase of \$130,416 (11.9%). For a district this size, the state recommends available reserves of at least 5% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District incurred an operating deficit of \$115,676 during fiscal year 2016-17 and produced operating surpluses of \$130,090 and \$125,208, during fiscal years 2017-18 and 2018-19, respectively.

Average daily attendance (ADA) increased 14 ADA over the past two years. The District's budget projects no change in ADA during fiscal year 2019-20.

Total long-term liabilities increased \$229,186 over the past two years.

EL NIDO ELEMENTARY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District participated in the Longer Day incentive funding program for the current fiscal year and has not yet met its LCFF funding target. This schedule presents information on the instructional days provided and the amount of instructional time offered by the District and whether the District complied with Article 8 (commencing with Section 46200) of Chapter 2 of Part 26 of the Education Code.

C. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds, as reported in the Annual Financial and Budget Report to the audited financial statements.

D. Schedule of Financial Trends and Analysis

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

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
El Nido Elementary School District
El Nido, California

Report on State Compliance

We have audited El Nido Elementary School District's compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's state programs identified on the following page for the fiscal year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting (Audit Guide)*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the District's state programs occurred. An audit includes examining, on a test basis, evidence about El Nido Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. Our audit does not provide a legal determination of El Nido Elementary School District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No (see below)
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Charter Schools:	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform procedures for the independent study program because the average daily attendance claimed by the District does not exceed the threshold that requires testing.

Opinion on State Compliance

In our opinion, El Nido Elementary School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* and which is described in the accompanying Schedule of Findings and Questioned Costs, as noted in **Finding 2019 - 001**. Our opinion on state compliance on the programs previously identified is not modified with respect to this matter.

District Response to Finding

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2019

STEPHEN ROATCH ACCOUNTANCY CORPORATION

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
El Nido Elementary School District
El Nido, 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 remaining fund information of the El Nido Elementary School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Stephen Roatch Accountancy Corporation

STEPHEN ROATCH ACCOUNTANCY CORPORATION
Certified Public Accountants

December 6, 2019

FINDINGS AND QUESTIONED COSTS SECTION

EL NIDO ELEMENTARY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

State Awards

Any audit findings required to be reported in accordance with the <i>2018-19 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting?</i>	_____ <u>X</u> Yes	_____ No
Type of auditor's report issued on compliance for state programs:	Unmodified	

**EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no matters to report for the fiscal year ended June 30, 2019.

EL NIDO ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

2019 - 001 / 40000

COMPREHENSIVE SCHOOL SAFETY PLAN

<u>Criteria:</u>	In accordance with Education Code Section 32286, each school is required to adopt a comprehensive school safety plan by March 1, 2000, and shall review and update its plan by March 1, every year thereafter.
<u>Condition:</u>	The District did not review and update its plan by March 1, 2019.
<u>Questioned Costs:</u>	None. This noncompliance has no fiscal impact.
<u>Context:</u>	The School's comprehensive school safety plan was not updated or reviewed during fiscal year 2018-19.
<u>Effect:</u>	The District did not comply with the requirements of Education Code Section 32286.
<u>Cause:</u>	The District has not established appropriate procedures to ensure that its comprehensive school safety plan is reviewed and updated by March 1.
<u>Recommendation:</u>	The District should establish appropriate procedures to ensure that its comprehensive school safety plan is reviewed and updated by March 1 in accordance with Education Code Section 32286.
<u>District Response:</u>	The District will establish appropriate procedures to ensure that the comprehensive school safety plan is reviewed and updated by March 1 in accordance with Education Code Section 32286.

**EL NIDO ELEMENTARY SCHOOL DISTRICT
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

There were no matters reported for the fiscal year ended June 30, 2018

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APPENDIX B

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

GENERAL DISTRICT INFORMATION

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

The District

The District is an elementary school district located in central California in the County of Merced (the "**County**"), approximately twelve miles south of the City of Merced. The District serves students in grades pre-kindergarten through eight. The District's estimated enrollment for 2019-20 is 181 students. For demographic information regarding the County, see Appendix C hereto.

Superintendent and Administrative Personnel

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

BOARD OF TRUSTEES El Nido Elementary School District

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bobby Borba	President	November 2022
Mike Anderson	Vice President	November 2020
Corey Fagundes	Clerk	November 2020
Barbara Greninger	Trustee	November 2022
Liliana Rojas	Trustee	November 2022

Superintendent and Administrative Personnel. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Lori Gonzalez is currently serving as the Superintendent and Lee Vang is serving as Business Manager.

Recent Enrollment Trends

The following table shows recent and projected enrollment history for the District.

ANNUAL ENROLLMENT
Fiscal Years 2014-15 through 2020-21
El Nido Elementary School District

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>% Change</u>
2014-15	172	--%
2015-16	153	(11.0)
2016-17	164	7.2
2017-18	166	1.2
2018-19	181	9.0
2019-20	158	(12.7)
2020-21 ⁽¹⁾	158	0.0

(1) Budgeted enrollment.

Source: California Department of Education; El Nido Elementary School District.

There are currently no charter schools sponsored or operating in District boundaries.

District's Response to COVID-19 Emergency

In March, 2020, the District closed its school for on-site learning to reduce the potential for community transmission of COVID-19. The closure was extended through the end of the academic school year. The District was able to provide one-to-one technology devices for each of its students during remote learning. The District is in the process of formulating plans for re-opening its facilities for students and employees in accordance with recommendations of State and local health authorities, and with the guidance of the County Office of Education.

The District is expected to receive \$42,198 (approximately \$267 per student) in funding under the CARES Act in July 2020 to address costs which may have resulted from the COVID-19 emergency. The District also is pursuing funds from FEMA. Because the District is funded pursuant to the State's education funding formula known as LCFF, the District's main operating revenues will be impacted by the State's financial position in the current and future fiscal years. As a result of the COVID-19 emergency, the State's revenues are predicted to decline sharply from the original budget for the current fiscal year, and in the near future. A corresponding decline in education funding is expected, but the extent of the decline, and whether additional federal funding will be available to school district, is not known at this time. See herein under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" for information on the State's current budget.

The District has incurred costs that were not anticipated at the time of its 2019-20 Budget as a result of COVID-19, such as the costs of mitigation measures and of implementing distance learning. However, funding under the CARES Act and other cost-saving impacts of not operating site-based learning, such as reductions in transportation costs, fuel and electricity costs, provide offsets to those expenses. With respect to pension costs, the District cannot currently predict if the COVID-19 emergency will have a material impact on its required employer contributions which could arise if the unfunded actuarial accrued liabilities of PERS and STRS materially increase. The District maintains reserves for economic uncertainties, which exceed the State's required minimum reserve, and the District Board has adopted a policy of maintaining reserves at a level of at least seven percent of expenditures. See "DISTRICT

FINANCIAL INFORMATION – District Budget and Interim Financial Reporting - District Reserves.”

The impacts of the COVID-19 emergency on global, State-wide and local economies, which could impact District operations and finances, and local property values are unknown and cannot be predicted by the District.

Employee Relations

The District has 9 certificated full-time equivalent (“FTE”) employees, 4 classified FTE employees, and 1 management/supervisor/confidential FTE employees. Only certificated employees are represented by a collective bargaining unit.

**BARGAINING UNITS
El Nido Elementary School District**

Employee Group	Employee Type Represented	Current Contract Expiration Date
El Nido Teachers’ Assn.	Certificated	June 30, 2021

Source: El Nido Elementary School District.

Insurance – Risk Management

The District participates in two joint ventures under joint powers agreements (“JPAs”) with the Merced County School Insurance Group I (“MCSIG I”), which provides workers’ compensation for its member school districts and the Central Region School Insurance Group (“CRSIG”), which provides general liability insurance coverage to its member school districts. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

The JPAs arrange for and/or provide coverage for its members. The JPAs are governed by a board consisting of a representative from each member district. Each board controls the operations of their JPAs, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPAs.

Each JPA is audited on an annual basis. Complete financial statements for MCSIG I may be obtained from the Merced County Office of Education, 632 West 13th Street, Merced, California 95341. Complete financial statements for CRSIG may be obtained from Central Region School Insurance Group, 4101 Tully Road, Suite 501, Modesto, California 95356.

DISTRICT FINANCIAL INFORMATION

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

Education Funding Generally

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

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

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

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in grades K-3 and the provision of career technical education in grades 9-12.

- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

The LCFF was implemented for fiscal year 2013-14 and is being phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget (based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**")), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

Funding levels used in the LCFF target entitlement calculations, not including any supplemental or concentration grant funding entitlements, for fiscal year 2019-20 are set forth in the following table. Full implementation occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year.

**Fiscal Year 2019-20 Base Grant* Under LCFF by Grade Span
(Targeted Entitlement)**

Grade Span	2019-20 Base Grant Per ADA	2018-19 COLA (3.70%)	Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)	2019-20 Base Grant/Adjusted Base Grant Per ADA
K-3	\$7,459	\$243	\$801	\$8,503
4-6	7,571	247	n/a	7,818
7-8	7,796	254	n/a	8,050
9-12	9,034	295	243	9,572

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

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

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

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

Basic Aid or Community Supported districts are school districts which have local property tax revenues which exceed such district's funding entitlement under LCFF. As such, in lieu of State funding under LCFF, Basic Aid districts are entitled to keep the full share of local property tax revenues, even the amount which exceeds its funding entitlement under LCFF. The District's funding formula is currently determined pursuant to LCFF, and not as a Basic Aid district.

District Accounting Practices

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

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see "APPENDIX A – Audited Financial Statements of the District for Fiscal Year Ending June 30, 2019 – Note 1 - Significant Accounting Policies" herein.

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

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

Financial Statements

General. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2019 Audited Financial Statements were prepared by Stephen Roach Accountancy Corporation, Folsom, California, and are attached hereto as Appendix A. Audited financial statements for the District for prior fiscal years are on file with the District at El Nido Elementary School District, 161 East El Nido Road, El Nido, California 95317; telephone (209) 385-8420. The District has not requested, and the auditor has not provided, any review or update of such financial statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. The District may impose a charge for copying, mailing and handling.

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General Fund Revenues, Expenditures and Changes in Fund Balance. The following table shows the audited income and expense statements for the District for fiscal years 2014-15 through 2018-19.

**GENERAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Fiscal Years 2014-15 through 2018-19 (Audited)⁽¹⁾
El Nido Elementary School District**

	Audited 2014-15	Audited 2015-16	Audited 2016-17	Audited 2017-18	Audited 2018-19
SOURCES					
LCFF Sources	\$1,446,791	\$1,600,629	\$1,604,883	\$1,645,442	\$1,893,937
Federal Revenue	65,802	93,796	91,242	103,209	93,695
Other State Revenue	282,498	515,716	306,848	375,222	405,227
Other Local Revenue	61,674	50,917	96,728	94,549	64,634
Total Revenue Limit	1,856,765	2,261,058	2,099,701	2,218,422	2,457,493
EXPENDITURES					
Instruction	957,874	1,039,327	1,208,896	1,143,935	1,241,813
Instruction – Related Services					
Supervision and administration	130,029	130,749	132,477	136,536	149,245
Library, media and technology	981	1,642	1,710	1,554	1,393
School site administration	115,279	138,805	204,457	195,977	192,485
Pupil Services					
Home-to-school transportation	114,435	261,995	86,380	99,634	140,635
Food services	--	--	--	--	--
All other pupil services	9,589	10,574	22,445	25,941	26,752
General Administration					
Centralized data procession	--	22,213	7,418	16,823	9,954
All other general administration	182,024	175,072	184,157	189,964	226,365
Plant Services	210,649	233,337	368,442	264,141	299,397
Facility acquisition, maintenance	--	12,975	--	--	--
Ancillary services	2,309	6,296	2,591	992	4,427
Community services	--	--	--	--	--
Transfers to other agencies	--	--	--	--	--
Other outgo	33,405	36,814	22,970	8,557	21,741
Enterprise services	--	--	--	--	--
Debt service- principal	--	--	13,260	18,033	17,720
Debt service- interest and other	--	--	--	45	358
Total Expenditures	1,769,557	2,069,799	2,255,203	2,102,132	2,332,285
Excess of (Deficiency) of Revenues Over Expenditures	87,208	191,259	(155,502)	116,290	125,208
OTHER FINANCING SOURCES					
Operating Transfers In	--	--	--	--	--
Other sources (uses)	--	--	39,826	13,800	--
Operating Transfers Out	(280,000)	--	--	--	--
Total Other Financing Sources (uses)	(280,000)	--	39,826	13,800	--
Net Change in Fund Balance	(192,792)	191,259	(115,116)	130,090	125,208
Fund Balance, July 1	957,699	764,907	956,166	840,490	970,580
Fund Balance, June 30	\$764,907	\$956,166	\$840,490	\$970,580	\$1,095,788

(1) Columns may not sum to total due to rounding.

Source: El Nido Elementary School District - Audited Financial Statements.

District Budget and Interim Financial Reporting

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

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

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

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

A State law adopted in 1991 (“**A.B. 1200**”) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file 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 will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent

fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

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

District Budget Approval/Disapproval and Certification History. In the past five fiscal years the County Superintendent has approved each of the District's adopted budgets, and the District has certified each of its interim reports as positive during said period.
[CONFIRIM]

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District Office at 161 East El Nido Road, El Nido, California 95317; telephone (209) 385-8420. The District may impose charges for copying, mailing and handling.

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General Fund for Fiscal Years 2019-20 and 2020-21. The following table shows a summary of the general fund for fiscal year 2019-20 (estimated actuals) and fiscal year 2020-21 (adopted budget).

REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE⁽¹⁾
Fiscal Year 2019-20 (Estimated Actuals)
Fiscal Year 2020-21 (Adopted Budget)
EI Nido Elementary School District

<u>Revenues</u>	<u>Estimated Actuals 2019-20</u>	<u>Adopted Budget 2020-21</u>
LCFF Revenues	\$2,007,719	\$1,639,072
Federal Revenues	145,711	147,909
Other State Revenues	333,056	337,580
Other Local Revenues	62,074	62,074
Total Revenues	<u>2,548,560</u>	<u>2,186,635</u>
<u>Expenditures</u>		
Certificated Salaries	777,066	784,471
Classified Salaries	448,762	450,523
Employee Benefits	511,130	518,620
Books and Supplies	247,105	232,649
Contract Services & Operating Exp.	524,964	524,141
Capital Outlay	165,086	0
Other Outgo (excluding indirect costs)	15,575	15,575
Other Outgo – Transfers of Indirect Costs	(7,616)	(7,617)
Total Expenditures	<u>2,682,072</u>	<u>2,518,362</u>
Excess of Revenues Over/(Under) Expenditures	(133,512)	(331,727)
<u>Other Financing Sources (Uses)</u>		
Operating transfers in	--	--
Operating transfers out	(100,000)	(15,000)
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(15,000)</u>
Net change in fund balance	(233,512)	(346,727)
Fund Balance, July 1 ⁽²⁾	<u>1,092,567</u>	<u>859,055</u>
Fund Balance, June 30	\$859,055	\$512,327

(1) Columns may not sum to totals due to rounding.

(2) Budgeting documents account for reserve outside of the general fund. Audited financial statements as summarized in the prior table include reserves in the general fund. As such, the above budgeted fund balances do not correspond directly with the District's audited financial statements.

Source: El Nido Elementary School District Adopted Budget for Fiscal Year 2020-21.

District Reserves. The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 5% of expenditures, plus any other allocation or reserve that might be approved as an expenditure by the District in the future. The District maintains, and expects to maintain, an unrestricted reserve, which meets the State's minimum requirements. In addition, the District Board has adopted a policy of maintaining reserves at a level of at least seven percent of expenditures.

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget ("SB 858"), the Education Code was amended to provide that, beginning in fiscal year

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

Effective January 1, 2018, Senate Bill 751, which was signed by the Governor on October 11, 2017, amends Section 42127.01 of the California Education Code to raise the reserve cap to no more than 10% of a school district's combined assigned or unassigned ending general fund balance. In addition, the amendment provides that the reserve cap will be effective only if there is a minimum balance of 3% in the Proposition 98 reserve referenced in the preceding paragraph. Basic aid school districts and small districts with 2,500 or fewer ADA are exempted from the reserve cap contained in California Education Code Section 42127.01. The District cannot predict how the foregoing legislation and reserve caps could impact its reserves and future spending.

The District cannot predict when or how any additional changes to legal provisions governing the reserve cap would impact its reserves and future spending. See "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS - 2019-20 State Budget."

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Average Daily Attendance - LCFF Funding Trends

LCFF Funding Trends. As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula that considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following table sets forth the District’s funding trends from State sources since implementation of LCFF.

LCFF FUNDING TRENDS Fiscal Years 2013-14 through 2020-21 (Budgeted) EI Nido Elementary School District

Fiscal Year	ADA	Total LCFF Funding
2013-14	176	\$1,319,122
2014-15	164	1,446,791
2015-16	151	1,600,629
2016-17	157	1,604,883
2017-18	161	1,645,442
2018-19	171	1,893,937
2019-20 ⁽¹⁾	151	2,007,719
2020-21 ⁽¹⁾	151	1,639,072

(1) Estimated Actual/Budgeted.
Source: EI Nido Elementary School District.

Unduplicated Pupil Count - Over 55 percent. The District’s unduplicated pupil count for fiscal year 2019-20 for purposes of calculating entitlement under LCFF for supplemental funding and concentration grant funding is approximately 90%. As such, the District expects to continue to be eligible for supplemental as well as concentration grant funding under LCFF.

Possible Impact of COVID-19 on Attendance. As described herein, the short-term and long-term impact of COVID-19 on the District’s attendance, revenues and local property values, and the impacts of Federal and State legislation resulting from the COVID-19 emergency, cannot be predicted. The Bonds described in this Official Statement are secured by *ad valorem* property taxes, and not the District’s general fund. See “SECURITY FOR THE BONDS – Disclosure Relating to COVID-19.”

Revenue Sources

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

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

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

The principal component of local revenues is the school district's property tax revenues, i.e., a district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the LCFF amount before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to.

Federal Revenues. The federal government provides funding for several District programs, including programs under Every Student Succeeds Act, the Individuals with Disabilities Education Act, and specialized programs such as Drug Free Schools.

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

For additional discussion of State aid to school districts, see "-Education Funding Generally."

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

District Retirement Systems

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**"). Both STRS and PERS are operated on a Statewide basis. *The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.*

Implementation of GASB Nos. 68 and 71. Commencing with fiscal year ended June 30, 2015, the District implemented the provisions of GASB Statement Nos. 68 and 71 which require certain new pension disclosures in the notes to its audited financial statements commencing with the audit for fiscal year 2014-15. Statement No. 68 generally requires the District to recognize its proportionate share of the unfunded pension obligation for STRS and PERS by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. See "APPENDIX A - Audited Financial Statements of the District For Fiscal Year Ending June 30, 2019" for further information.

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

**STRS Contributions
El Nido Elementary School District⁽¹⁾**

Fiscal Year	Amount
2014-15	\$33,196
2015-16	69,560
2016-17	84,210
2017-18	102,835
2018-19	123,559
2019-20 ⁽²⁾	196,486
2020-21 ⁽²⁾	203,034

(1) Increases attributed to increase in contribution rates and modified accounting reporting requirements, which include reporting the District's proportionate share of the plan's net pension liability and recognizing on-behalf STRS contributions in governmental funds.

(2) Estimated Actual/Budgeted.

Source: *El Nido Elementary School District.*

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$102.6 billion as of June 30, 2019 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"), which represents a legislative effort to fund the unfunded actuarial obligation with respect to service credited members of the STRS Defined Benefit Program before July 1, 2014, within 32 years. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

The District's employer contribution rates for fiscal years 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20 were 10.73%, 12.58%, 14.43%, 16.28% and 18.13%, respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2020-21 through fiscal year 2022-23 are set forth in the following table.

**EMPLOYER CONTRIBUTION RATES (STRS)
Fiscal Years 2020-21 through 2022-23**

Fiscal Year	Employer Contribution Rate⁽¹⁾
2020-21 ⁽²⁾	16.15
2021-22 ⁽²⁾	16.02
2022-23	18.10

(1) Expressed as a percentage of covered payroll. Projected rates may change.

(2) Reflects changes to such rates included in the State's 2020-21 Budget.

Source: AB 1469.

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of a cost-sharing pool within PERS known as the "Schools Pool." Benefit provisions are established by State statutes, as legislatively amended. Contributions to PERS are made by employers and employees. Each fiscal year, the District is required to contribute an amount based on an actuarially determined employer rate. The District's employer contributions to PERS for recent fiscal years are set forth in the following table.

**PERS Contributions
El Nido Elementary School District**

Fiscal Year	Amount
2014-15	\$41,729
2015-16	47,087
2016-17	50,565
2017-18	56,741
2018-19	74,801
2019-20 ⁽¹⁾	92,595
2020-21 ⁽¹⁾	93,258

(1) Estimated Actual/Budgeted.

Source: El Nido Elementary School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$31.4 billion as of June 30, 2019 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate (its assumed rate of investment return) in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

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

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

Source: PERS.

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

The District's employer contribution rates for fiscal years 2015-16, 2016-17, 2017-18, 2018-19, 2019-20 were 11.847%, 13.888%, 15.531%, 18.062%, and 19.721% respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2020-21 through fiscal year 2022-23 are set forth in the following table.

**EMPLOYER CONTRIBUTION RATES (PERS)
Fiscal Years 2020-21 through 2022-23⁽¹⁾**

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

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

(2) Expressed as a percentage of covered payroll. Rates have been reduced following adoption of the fiscal year 2019-20 State Budget. See the following paragraph

Source: PERS

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which impacted various aspects of public retirement systems in the State, including the STRS and PERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public retirement systems in the State. PEPRA applies to all public employee retirement systems in the State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRA's provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

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

With respect to the STRS pension program, employees hired after January 1, 2013 will pay the greater of either (1) fifty percent of the normal cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by then-current members (i.e., employees in the STRS plan as of January 1, 2013). The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Employers will pay at least the normal cost rate, after subtracting the member's contribution.

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

Additional Information. Additional information regarding the District's retirement programs is available in Note 8 to the District's audited financial statements attached hereto as APPENDIX A. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, www.calstrs.com and www.calpers.ca.gov, respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter for accuracy or completeness.*

Other Post-Employment Retirement Benefits

In addition to the pensions described above, the District has a pay-as-you-go policy for post-retirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 20 years of service. These benefits are reimbursed to the District by the employee; therefore, there are no post-employment benefit obligations as of June 30, 2019.

Long Term Debt Obligations

In addition to the liability with respect to pensions as described herein, the District has liability with respect to a capital lease as described below. There are no other long term debt obligations of the District.

Capital Lease. The District leases computer equipment valued at \$13,800 under a lease-purchase agreement, which provides for title to pass upon expiration of the lease term. Future minimum payments under this agreement are as follows:

<u>Year Ended June 30</u>	<u>Lease Payments</u>
2020	\$4,795
Less amounts representing interest	(182)
Present value of net minimum lease payments	<u>\$4,613</u>

Source: El Nido Elementary School District.

Investment of District Funds

In accordance with Government Code Section 53600 *et seq.*, the Merced County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See "APPENDIX G - MERCED COUNTY INVESTMENT POLICY AND INVESTMENT REPORT."

Effect of State Budget on Revenues

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

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

STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

State Funding of Education

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. School districts in California receive operating income primarily from two sources: (1) the State funded portion which is derived from the State's general fund, and (2) a locally funded portion, being a district's share of the 1% general *ad valorem* tax levy authorized by the California Constitution (see "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" above). School districts in California which do not operate as Basic Aid Districts are dependent on revenues from the State for a large portion of their operating budgets. California school districts which do not operate as Basic Aid Districts receive an average of about 55% of their operating revenues from various State sources.

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

As described below in the summaries of State budgeting documents and commentary of the LAO, the COVID-19 pandemic is expected to have a material impact on State revenues and appropriations.

The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the Underwriter or the County is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.

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

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

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by

the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

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

Recent State Budgets

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

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

Prior Years' Budgeting Techniques. Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 resulting in the State undertaking a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools until a later date in the fiscal year or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. As a result of the COVID-19 pandemic and subsequent economic recession, budget-cutting strategies such as those used in recent years are being used and may continue to be used in the future during a period of budgetary strain.

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

2020-21 State Budget

Introduction and Background. The Governor signed the fiscal year 2020-21 State Budget (the “**2020-21 State Budget**”) on June 29, 2020. The 2020-21 State Budget notes that the COVID-19 pandemic has impacted every sector of the State's economy and has caused record high unemployment, and further action from the federal government is needed as a result of the crisis. The Governor is pursuing \$1 trillion in flexible federal aid to state and local governments across the country, which support will be critical to mitigate the effects of the public health crisis, encourage recovery, and support persons in need.

At the time of the Governor's proposed 2020-21 State Budget in January, the State was projecting a surplus of \$5.6 billion. At the time of the May Revision with respect to the 2020-21 State Budget, the State had a budget deficit of \$54.3 billion. The 2020-21 State Budget includes measures to close the gap and bring the State's resources and spending into balance while preserving reserves for future years.

To reduce the structural deficit in the coming years, the 2020-21 State Budget sustains the January 1, 2022 suspension of several ongoing programmatic expansions that were made in the 2019 Budget Act. In addition, the 2020-21 State Budget accelerates the suspension of most Proposition 56 (2016 tobacco tax measure) tax rate increases to July 1, 2021. Despite these measures, the State forecasts an operating deficit of \$8.7 billion in 2021-22, after accounting for reserves.

Closing the Budget Gap. The 2020-21 State Budget uses the following strategies to close the budget gap:

- **Reserve Draw Down:** Draws down \$8.8 billion in reserves, including from the State's Rainy Day Fund (\$7.8 billion), the Safety Net Reserve (\$450 million), and all of the funds in the Public School System Stabilization Account.
- **Triggers:** Includes \$11.1 billion in funding reductions and deferrals that will be restored if at least \$14 billion in federal funds are received by October 15, 2020. If the State receives a lesser amount between \$2 billion and \$14 billion, the reductions and deferrals will be partially restored. The trigger includes \$6.6 billion in deferred funding for schools.
- **Federal Funds:** Relies on \$10.1 billion in federal funds that provide State general fund relief, including \$8.1 billion already received.
- **Revenues:** Temporarily suspends the use of net operating losses for medium and large businesses and temporarily limits to \$5 million the amount of business incentive credits a taxpayer can use in any given tax year. These short-term limitations will generate \$4.4 billion in new revenues in the 2020-21 fiscal year.
- **Borrowing/Transfers/Deferrals:** Relies on \$9.3 billion in special fund borrowing and transfers, as well as other deferrals for K-14 schools. Approximately \$900 million in additional special fund borrowing is associated with the reductions to employee compensation and is contained in the trigger.

- Other Solutions: Cancelling multiple program expansions and anticipating increased government efficiencies, higher ongoing revenues above the May Revision forecast and lower health and human services caseload costs than the May Revision estimated.

General Budget Highlights. Certain highlights of the 2020-21 State Budget are:

Emergency Response: COVID-19 and other emergency response efforts included in the 2020-21 State Budget are:

- Responding to COVID-19: The State expects to receive over \$72 billion in federal assistance to State programs, of which unemployment insurance represents about \$52 billion of this total. Under the CARES Act, the State received \$9.5 billion for various uses including \$4.4 billion to mitigate K-14 learning loss. The amount of \$5.9 million of General Fund spending for 2020-21 and \$4.8 million ongoing is allocated to support the State Department of Health's response to COVID-19.
- Enhancements to Emergency Responses and Preparedness: \$117.6 million is allocated to the State Office of Emergency Services to enhance emergency preparedness and response capabilities, including with respect to power outages, earthquakes, wildfires and cybersecurity.
- Forestry and Fire Protection: \$90 million is allocated to enhance CAL FIRE's fire protection capabilities, including for wildfire prediction and modeling technology.

Revenue Solutions. Revenue measures which are expected to net \$4.3 billion in 2020-21, \$3.1 billion in 2021-22 and \$1.3 billion in 2022-23, include:

- Certain Tax Measure Extensions. Extending certain tax measures including certain sales tax exemptions through the end of 2022-23, extending the carryover period for film credits from 6 years to 9 years, and extending the current exemption from the minimum tax for first year corporations to first year limited liability corporations, partnerships, and limited liability partnerships.
- Expansion of Earned Income Tax. Expanding the Earned Income Tax Credit to certain taxpayers.
- Changes to Tax Laws and Sales Tax. Changes in tax law including suspending net operating losses for 2020, 2021, and 2022 for medium and large businesses, and limiting certain business incentive tax credits, and with respect to closing the sale tax loss gap, requiring used car dealers to remit sales tax to the Department of Motor Vehicles with registration fees.

Recovery for Small Businesses. The 2020-21 State Budget includes a waiver of the minimum franchise tax for the first year of operation, \$100 million budgeted for the State's small business loan program, \$25 million to provide capital to enable the origination of more loans in underbanked communities, and adding funding of

\$758,000 ongoing for positions relating to small business support.

Housing. Up to \$500 million is allocated in State tax credits for low-income housing in 2021, under certain conditions. The 2020-21 State Budget provides \$331 million in National Mortgage Settlement funds to help prevent avoidable foreclosures and evictions, and \$8.3 billion across multiple departments and programs to address housing throughout the State.

K-12 Education Funding Summary. For K-12 education funding, the 2020-21 State Budget provides for funding under Proposition 98 of \$70.9 billion, which is more than \$10 billion below the minimum guarantee contained in the State's 2019-20 budget. For K-12 schools, this results in Proposition 98 per pupil spending of \$10,654 in 2020-21, which is a \$1,339 decrease over the 2019-20 per pupil spending levels. Additionally, in the same period, per pupil spending from all State, federal, and local sources decreased by approximately \$542 per pupil to \$16,881.

Efforts to mitigate the impact of the decline in K-12 funding in the 2020-21 State Budget include:

Deferrals: \$1.9 billion of LCFF apportionment deferrals in 2019-20, growing to \$11 billion LCFF apportionment deferrals in 2020-21. These deferrals will allow LCFF funding to remain at 2019-20 levels in both fiscal years. The statutory LCFF cost-of-living adjustment is suspended in 2020-21. Of the total deferrals, \$5.8 billion will be triggered off in 2020-21 if the federal funding becomes available.

Learning Loss Mitigation: A one-time investment of \$5.3 billion (\$4.4 billion federal Coronavirus Relief Fund, \$539.9 million Proposition 98 General Fund, and \$355.2 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures. Funds will be allocated to local educational agencies on an equity basis, with an emphasis on ensuring the greatest resources are available to local educational agencies serving students with the greatest needs.

Supplemental Appropriations: In 2019-20 and 2020-21, the Proposition 98 funding level drops below the target funding level by a total of approximately \$12.4 billion. To accelerate the recovery from this funding reduction, the 2020-21 State Budget provides supplemental appropriations above the constitutionally-required Proposition 98 funding level, beginning in 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5 percent of State general fund revenues per year, up to a cumulative total of \$12.4 billion.

Revised PERS and STRS Contributions. To provide local educational agencies with increased fiscal relief, the 2020-21 State Budget redirects \$2.3 billion appropriated in the 2019 Budget Act to STRS and PERS for long-term unfunded liabilities to reduce employer contribution rates in 2020-21 and 2021-22. This reallocation will reduce the STRS employer rate from 18.41 percent to approximately 16.15 percent in 2020-21 and from 17.9 percent to 16.02 percent in 2021-22. The PERS Schools Pool employer contribution rate will be further reduced from 22.67 percent to 20.7 percent in 2020-21 and from 24.6 percent to 22.84 percent in 2021-22.

Federal Funds. The 2020-21 State Budget appropriates \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds that the State was

recently awarded. Of this amount, 90 percent (\$1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive to be used for COVID-19 related costs. The remaining 10 percent (\$164.7 million) is available for certain COVID-19 related State-level activities, such as providing additional funding for student meals and social services.

Special Education. The 2020-21 State Budget increases special education base rates to \$625 per pupil pursuant to a new funding formula, apportioned using the existing hold harmless methodology, and provides \$100 million to increase funding for students with low-incidence disabilities. Additional federal funding received by the State is also allocated to various special education programs.

Average Daily Attendance. To ensure funding stability regardless of the instructional model undertaken in the 2020-21 academic year, the 2020-21 State Budget includes a hold harmless for the average daily attendance used to calculate school funding for all local educational agencies.

In addition, the 2020-21 State Budget includes certain employee protection terms to ensure the continuity of employment for essential school staff during the COVID-19 pandemic. As such, the 2020-21 State Budget includes the suspension of the August 15, 2020, layoff window for teachers and other non-administrative certificated staff, and the suspension of layoffs for classified staff working in transportation, nutrition, and custodial services from July 1, 2020 through June 30, 2021. The 2020-21 State Budget also includes the intent of the State Legislature that school districts, community college districts, joint powers authorities, and county offices of education retain all classified employees in the 2020-21 fiscal year.

Disclaimer Regarding State Budgets

The implementation of the foregoing 2020-21 State Budget, and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable, including the COVID-19 emergency.

The District cannot predict the impact that the COVID-19 emergency, the results of the State's 2019-20 budget, the 2020-21 State Budget, or subsequent state budgets, including adjustments made for economic conditions, will have on its own finances and operations. However, the Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

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

Availability of State Budgets

The complete 2020-21 State Budget is available from the California Department of Finance website at www.ebudget.ca.gov. An impartial analysis of the budget is published by the Legislative Analyst Office, and is available at www.lao.ca.gov/budget. The District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Series A Bonds.

Uncertainty Regarding Future State Budgets

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

Legal Challenges to State Funding of Education

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

The Bonds described herein are secured by voter-approved *ad valorem* property taxes and not by the District's general or other funds.

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CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111, 39 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

Constitutionally Required Funding of Education

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

Article XIII A of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("**Proposition 13**"), which added Article XIII A to the State Constitution ("**Article XIII A**"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the Refunded Bonds), and (iii) (as a result of an amendment to Article XIII A approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. All of the District's outstanding general obligation bonds were authorized pursuant to clause (iii) above. 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.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no

longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

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

Article XIII B of the California Constitution

Article XIII B ("**Article XIII B**") of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIII B, as amended.

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

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

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

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

Unitary Property

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

Articles XIII C and XIII D

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

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

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIII C to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and

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

Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Bonds.

Proposition 98

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

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base

funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Proposition 111

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

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

Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California *per capita* personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

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

Proposition 39

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

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

Proposition 30 and Proposition 55

On November 6, 2012, voters approved the Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “**Proposition 30**”), which temporarily

increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,000 for joint filers and over \$340,000 but less than \$408,000 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$600,000 but less than \$1,000,000 for joint filers and over \$408,000 but less than \$680,000 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

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

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

Proposition 1A and Proposition 22

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax

revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, a constitutional initiative entitled the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” approved on November 2, 2010, superseded many of the provisions of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

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

California Senate Bill 222

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 22, 26, 30, 39, 1A, 55, 111 and 218 were each adopted as measures that

qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX C

GENERAL INFORMATION ABOUT MERCED COUNTY

The following information about Merced County (the “**County**”) is included only for the purpose of supplying general information regarding the area of the District. The Bonds are not a debt of the County, the State of California (the “**State**”) or any of its political subdivisions (other than the District), and neither the County, the State or any of its political subdivisions (other than the District) is liable therefor.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak, and the economic and other impacts of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact, are developing and uncertain. The information set forth in this Appendix C predates the outbreak of the COVID-19 pandemic and should not be relied upon as representative of the current demographics within the District.

General Information

The County. The County has six incorporated cities, of which the City of Merced is the largest in terms of population. Located in central California, the County is bordered by Santa Clara County to the northwest, Stanislaus County to the north, Tuolumne and Mariposa counties to the east, Madera and Fresno counties to the south, and San Benito County to the west. More than half of the County’s land is made up of an agriculturally rich alluvial plain produced by the Chowchilla, San Joaquin, and Merced Rivers. Agriculture is one of the County’s main sources of revenue and, based on production, Merced County is the fifth-leading agricultural county in California. Milk and related products from the County’s commercial dairies generate the greatest amount of revenue. Other crops grown in commercial quantities include poultry, beef, almonds, and tomatoes.

Population

The following table lists population estimates for the City and County for the last five calendar years, as of January 1.

MERCED COUNTY Population Estimates

	2016	2017	2018	2019	2020
Atwater	29,849	30,200	30,815	31,370	31,378
Dos Palos	5,262	5,286	5,514	5,549	5,546
Gustine	5,796	5,833	5,882	5,867	5,875
Livingston	13,997	14,069	14,287	14,709	15,052
Los Banos	38,494	39,156	40,366	41,287	41,923
Merced	83,404	83,974	85,075	86,081	88,120
Unincorporated	93,656	94,916	95,604	95,872	95,627
County Total	270,458	273,434	277,543	280,735	283,521

Source: State Department of Finance estimates (as of January 1).

Employment and Industry

The unemployment rate in the Merced County was 18.8% in April 2020, up from a revised 13.2% in March 2020, and above the year-ago estimate of 8.7%. This compares with an unadjusted unemployment rate of 16.1% for California and 14.4% for the nation during the same period.

The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2015 through 2019.

**MERCED METROPOLITAN STATISTICAL AREA (MSA)
(Merced County)
Annual Average Civilian Labor Force,
Employment and Unemployment by Industry
(March 2019 Benchmark)**

	2015	2016	2017	2018	2019
Civilian Labor Force ⁽¹⁾	114,000	114,300	115,300	115,400	116,200
Civilian Employment	101,100	102,200	104,500	105,600	106,900
Civilian Unemployment	12,900	12,100	10,800	9,700	9,400
Civilian Unemployment Rate	11.4%	10.6%	9.4%	8.4%	8.1%
<u>Wage and Salary Employment ⁽²⁾</u>					
Agriculture	14,100	14,000	14,100	14,100	13,900
Mining, Logging, and Construction	1,900	2,200	2,400	2,500	2,600
Manufacturing	9,700	9,300	9,600	9,700	9,900
Trade, Transportation & Utilities	12,200	12,600	13,200	13,600	13,800
Wholesale Trade	1,400	1,600	1,700	1,800	1,800
Retail Trade	8,000	8,100	8,300	8,400	8,400
Transportation, Warehousing & Utilities	2,800	2,900	3,200	3,500	3,700
Information	300	300	300	300	300
Financial Activities	1,600	1,800	1,800	1,800	1,900
Professional & Business Services	3,800	3,700	4,100	4,300	4,400
Educational & Health Services	9,400	9,800	10,200	10,300	10,600
Leisure & Hospitality	5,400	5,500	5,600	5,800	6,000
Other Services	1,400	1,400	1,400	1,500	1,500
Federal Government	800	800	800	700	700
State Government	3,200	3,500	3,600	3,700	3,900
Local Government	13,700	14,200	14,300	14,500	14,800
Total, All Industries ⁽³⁾	77,500	79,100	81,400	82,800	84,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

Listed below are the major employers in the County.

**MERCED COUNTY
Major Employers (Listed Alphabetically)
As of June 2020**

Employer Name	Location	Industry
Costco Wholesale	Merced	Wholesale Clubs
County of Merced	Merced	Clinics
Dole Packaged Foods LLC	Atwater	Frozen Foods-Wholesale
E & J Gallo Winery	Livingston	Wineries (mfrs)
Foster Farms	Livingston	Poultry Processing Plants (mfrs)
Golden Valley Health Ctr	Merced	Pharmacies
Golden Valley Health Ctr	Merced	Clinics
Hilmar Cheese Co	Hilmar	Cheese Processors (mfrs)
J Marchini & Son	Le Grand	Farms
Liberty Packing Co	Los Banos	Packing & Crating Service
Live Oak Farms	Le Grand	Fruits & Vegetables-Growers & Shippers
Livingston Union School Dist	Livingston	School Districts
Mcoe	Merced	Educational Cooperative Organizations
Memorial Hospital Los Banos	Los Banos	Hospitals
Mental Health Svc For Merced	Merced	Mental Health Services
Merced County Human Svc	Merced	Government Offices-County
Mercy Medical Ctr Merced	Merced	Hospitals
Quad/Graphics Inc	Merced	Printers (mfrs)
Sensient Natural Ingredients	Livingston	Dehydrating Service (mfrs)
University of CA Merced	Merced	Schools-Universities & Colleges Academic
Walmart	Merced	Department Stores
Walmart Supercenter	Atwater	Department Stores
Weaver Union School District	Merced	School Districts
Western Marketing & Sales	Atwater	Farms
Yosemite Wholesale Warehouse	Merced	Warehouses

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2020 1st Edition.

Effective Buying Income

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

The following table summarizes the total effective buying income and median household effective buying income for the County, the State and the United States for the period 2016 through 2020.

**COUNTY OF MERCED,
STATE OF CALIFORNIA, AND UNITED STATES
Effective Buying Income
As of January 1, 2016 through 2020**

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2016	Merced County	\$3,822,788	\$37,881
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2017	Merced County	\$4,288,852	\$41,705
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2018	Merced County	\$4,270,574	\$40,894
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	Merced County	\$4,919,289	\$45,548
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	Merced County	\$4,986,567	\$45,457
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303

Source: *The Nielsen Company (US), Inc* for years 2016 through 2018; *Claritas, LLC* for 2019 and 2020.

Commercial Activity

A summary of historic taxable sales within the County for calendar years 2015 through 2019 is shown in the following table. During calendar year 2019, total taxable transactions in the County were reported to be \$3,321,383,376, a 6.60% increase over the total taxable transactions of \$3,115,796,635 that were reported in the County during calendar year 2018.

MERCED COUNTY
Taxable Transactions
For Calendar Years 2015 through 2019
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2015 ⁽¹⁾	1,353	\$1,907,627	4,064	\$2,964,724
2016	2,750	1,964,450	4,167	2,780,357
2017	2,711	2,092,340	4,155	2,940,773
2018	2,680	2,247,799	4,236	3,115,797
2019	2,738	2,280,003	4,397	3,321,383

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

Source: State Department of Tax and Fee Administration.

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Construction Activity

The following tables show a five-year summary of the valuation and number of building permits issued in the County.

COUNTY OF MERCED Building Permit Valuation (Valuation in Thousands of Dollars)

	2014	2015	2016	2017	2018
<u>Permit Valuation</u>					
New Single-family	\$45,759.0	\$86,294.1	\$161,700.5	\$133,276.6	\$241,072.6
New Multi-family	913.4	169.0	6,774.9	6,232.8	1,580.0
Res. Alterations/Additions	<u>7,153.6</u>	<u>6,373.8</u>	<u>5,418.5</u>	<u>3,829.0</u>	<u>7,819.9</u>
Total Residential	53,826.0	92,836.9	173,893.9	143,338.4	250,472.5
New Commercial	21,028.4	61,755.5	32,664.2	82,556.7	75,815.4
New Industrial	7,276.8	0.0	12,256.6	7,480.0	0.0
New Other	85,373.7	19,108.3	27,212.8	20,300.9	104,976.2
Com. Alterations/Additions	<u>24,725.5</u>	<u>18,895.7</u>	<u>45,359.6</u>	<u>18,936.9</u>	<u>72,948.3</u>
Total Nonresidential	138,404.4	99,759.5	117,493.2	129,274.5	253,739.9
New Dwelling Units					
Single Family	203	435	791	695	1,221
Multiple Family	<u>6</u>	<u>2</u>	<u>89</u>	<u>36</u>	<u>8</u>
TOTAL	209	437	880	731	1,229

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

Situated on Highway 99, Merced County offers excellent transportation access routes throughout California and the Western United States. There are 200 major carriers within 35 minutes of the City of Visalia who provide interstate trucking services. Many communities in the County offer airports for corporate service. Air service is available approximately 45 minutes north at Fresno Yosemite International Airport and San Francisco International Airport are each about 3-1/2 hours driving time away.

Union-Southern Pacific, Burlington Northern-Santa Fe Railroads are the San Joaquin Valley Rail Companies that serve Merced County with extensive spur track, piggyback service, reciprocal switching, and refrigerated shipping.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Trustees
El Nido Elementary School District
161 East El Nido Road
El Nido, California 95317

OPINION: \$_____ El Nido Elementary School District
(Merced County, California) General Obligation Bonds,
Election of 2020, Series A (Measure P) (Bank Qualified)
and
\$_____ El Nido Elementary School District
(Merced County, California) General Obligation Bonds,
Election of 2020, Series A (Measure Q) (Bank Qualified)

Ladies and Gentlemen:

We have acted as bond counsel to the El Nido Elementary School District (the "District") in connection with the issuance by the District of its El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure P) in the aggregate principal amount of \$_____ and its El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure Q) (collectively, the "Bonds"). The Bonds have been authorized to be issued under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and Resolution No. ____ adopted by the Board of Trustees of the District (the "Board") on June 23, 2020 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

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

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

1. The District is duly established and validly existing as a school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution.
2. The Bond Resolution has been duly adopted by the Board of Trustees of the District and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Merced is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The Bonds are “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Tax Code”), and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions’ interest expense allocable to the portion of the Bonds designated as and comprising interest.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes, and in order for the Bonds to be “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Tax Code. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds, or may cause the Bonds not to be “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Tax Code.

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

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

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

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

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds
Election of 2020, Series A (Measure P)
(Bank Qualified)

\$ _____
EL NIDO ELEMENTARY SCHOOL DISTRICT
(Merced County, California)
General Obligation Bonds,
Election of 2020, Series A (Measure Q)
(Bank Qualified)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the El Nido Elementary School District (the "District") in connection with the issuance of \$ _____ aggregate principal amount of El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure P) and \$ _____ aggregate principal amount of El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure Q) (collectively, the "Bonds"). The Bonds are being issued under a Resolution adopted by the Board of Trustees of the District on June 23, 2020 (the "Bond 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 S.E.C. Rule 15c2-12(b)(5).

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

"Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4.

"Annual Report Date" means the date not later than nine months after the end of each fiscal year of the District (currently June 30th), or March 31.

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

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

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

“*Official Statement*” means the final official statement executed by the District in connection with the issuance of the Bonds.

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

“*Participating Underwriter*” means the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2021 with the report for the 2019-20 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide (or cause the Dissemination Agent to provide) in a timely manner to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Paying Agent and Participating Underwriter.

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

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

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the following information shall be provided in the Annual Report:

- (i) assessed valuation of taxable properties in the District for the most recently completed fiscal year, or if available at the time of filing, the current fiscal year;
- (ii) assessed valuation of properties of the top twenty taxpayers for the most recently completed fiscal year, or if available at the time of filing, the current fiscal year;
- (iii) if the District's general obligation bond levies are not included in the County of Merced's Teeter Plan, property tax collection delinquencies for the District for the most recently completed Fiscal Year only if available from the County at the time of filing the Annual Report;
- (iv) the District's most recently adopted budget or interim report available at the time of filing the Annual Report; and
- (v) such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

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

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Bond Resolution.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of

the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

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

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

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 Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the District and the Paying Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the

requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the 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.

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

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

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 of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they 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 Dissemination Agent will have no duty or obligation to review any information provided to it by the District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bondholders or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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.

Date: _____, 2020

**EL NIDO ELEMENTARY SCHOOL
DISTRICT**

By: _____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: El Nido Elementary School District

Name of Bond Issue: \$_____ aggregate principal amount of El Nido Elementary School District (Merced County, California) General Obligation Bonds, Election of 2020, Series A (Measure P)

\$_____ aggregate principal amount of El Nido Elementary School District (Merced County, California) General Obligation Series Election of 2020, Series A (MeasureQ)

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 the resolution adopted by the Board of Trustees of the District authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

_____,
as Dissemination Agent

By: _____
Authorized Officer

Cc: El Nido Elementary School District

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

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

Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (in this Appendix, the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as

possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to District or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that District believes to be reliable, but District takes no responsibility for the accuracy thereof.

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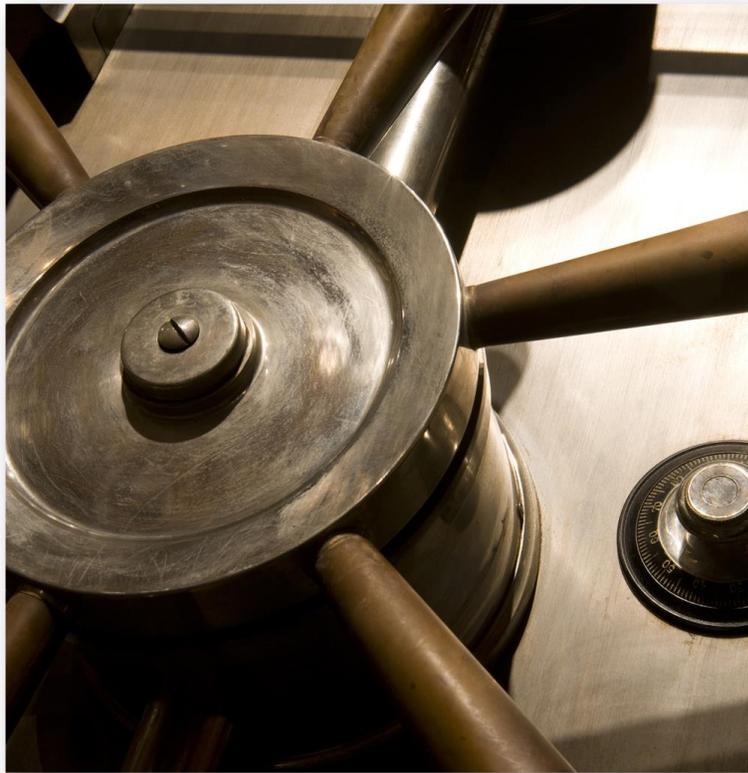
APPENDIX G

**MERCED COUNTY INVESTMENT POLICY
AND RECENT INVESTMENT REPORT**

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MERCED COUNTY TREASURY



INVESTMENT POLICY STATEMENT 2020

**Karen D. Adams, CPA
Treasurer**

TABLE OF CONTENTS

PREFACE	iii
SCOPE.....	1
PURPOSE.....	1
LEGAL COMPLIANCE	1
GOALS AND OBJECTIVES	1
1. Primary Goals	1
2. Prudence.....	2
3. Maintenance of Public Trust.....	2
4. Ethics and Conflict of Interest	2
POLICY SUMMATION OF BASIC STRATEGY	3
AUTHORITY	4
1. Delegation.....	4
2. Retention.....	4
TREASURY OVERSIGHT COMMITTEE	4
1. Members	5
2. Duties of the Treasury Oversight Committee (TOC)	5
3. Annual Audit.....	6
4. Meetings.....	6
ADMINISTRATION	7
1. Safekeeping	7
2. Collateralization.....	7
3. Performance Benchmark	7
4. Internal Controls & Procedures	7
5. Competitive Bidding	8
6. Reporting.....	8
7. Marked-to-Market.....	9
8. Interest Apportionment.....	9
9. Voluntary Depositors/Withdrawals	10
10. Business Continuity Plan	11

CONTENTS Continued

AUTHORIZED INVESTMENTS & DIVERSIFICATION	12
1. Authorized Investments.....	12
2. Maximum Maturities	12
3. Maximum Amounts	12
4. International Investing	12
5. Investment of Funds	12
AUTHORIZED BROKERS/DEALERS & DEPOSITORIES	13
REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS.....	13
PUBLIC INQUIRY	14
LISTING OF INVESTMENT TERMINOLOGY.....	15
AUTHORIZED INVESTMENT – APPENDIX 1.....	A-1

PREFACE

Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. While some portions of this policy are a restatement of State law, these restatements are integral to the purpose and flow of this policy.

The following statements are intended to insure the achievement of the purpose, goals, and objectives of the investment strategy in an orderly, accurate manner. However, there is no guarantee that problems, errors or losses will not arise in the course of administering the investment of funds.

Unforeseen factors may effect the achievement of the goals and objectives of the portfolio. A list of factors include, but are not limited to, the following: national or international events or crises, deviation of actual cash flow from forecasted cash flow, unexpected demands on cash flow, policies made with regard to investment in local depositories, and errors in data or advice used to make decisions, as well as any other unforeseen aberration or event that may impact local, national or international financial markets, economies or politics which in turn has a decided effect upon the portfolio.

Keeping in mind the obstacles and deterrents in pursuing portfolio goals and objectives, this policy is designed to achieve a reasonable rate of return over an economic cycle, consistent with limited risk and prudent investment practices.

SCOPE

The following investment policy pertains to the pooled operating funds of Merced County and depository agencies. Depository agencies consist of school districts, Merced College, special districts and other local agencies. The County retirement system is an independent CA 1937 Act system and the Treasurer is a trustee on the board. The independent retirement system only deposits short-term liquidity monies in the treasury for retiree payroll. This policy is concerned with the deposit, safekeeping and investment of all funds under the control of the Treasurer, as well as all related transactions and investment activities.

PURPOSE

The purpose of the investment policy is to facilitate accomplishment of the goals and objectives of the Treasurer with regard to the investment of idle funds, to provide a framework within which to carry out the business of administering and investing the idle funds of the Treasury, to improve communications at all levels between those interested in the process of investing and administering the idle funds of the Treasury, and to ensure compliance with legal requirements and policies adopted by the Oversight Committee and Board of Supervisors.

LEGAL COMPLIANCE

All investing and investment decisions shall be made with full compliance to California Government Code § 27000 et seq. and 53600 et seq., as well as any forthcoming amendments or additions to the California Government Code in relation to the investment of local agency idle funds. In addition, the Treasurer may provide further restrictions and guidelines for the investment of idle funds through this Statement of Investment Policy and the Investment Guidelines and Procedures Manual.

GOALS AND OBJECTIVES

PRIMARY GOALS

The Treasurer's primary goals for the investment of idle funds (the portfolio) are in order of priority:

1. Safety

Safety of Principal shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud or error. To achieve preservation of principal the portfolio structure will be diversified to mitigate credit risk and market risk.

Credit Risk: The inherit risk of an issuer(s) ability and willingness to repay interest and principal, which shall be mitigated by diversifying the fund so that the failure of any one issuer would not unduly harm the Fund's cash flow.

Market Risk: The inherit risk of market value fluctuations due to changes in the general level of interest rates. Because longer maturity fixed-income securities have greater market risk than shorter maturity securities, market risk will be mitigated by establishing a limit for the weighted average maturity. It is recognized in an active portfolio occasional losses on individual securities are inevitable and must be considered within the context of the overall investment return.

2. **Liquidity**

Liquidity Maintenance shall mean to always have the ability to convert sufficient securities in the portfolio to cash, with little or no loss in value, to cover cash flow needs of the county and its investing agencies, to meet contingency needs.

3. **Yield**

Yield refers to earning a reasonable rate of return and shall take into consideration current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity Maintenance.

PRUDENCE

The administration of idle funds of the Merced County Treasurer, as a fiduciary trustee, shall be performed in accordance with the prudent investor standard as stated in California Government Code § 27000.3 and 53600.3:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing 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 need of the county and other depositors."

MAINTENANCE OF PUBLIC TRUST

As the Treasurer has been entrusted with the safekeeping of Public Monies received from Public Sources, the Treasurer in managing Investment Portfolios shall exercise a high degree of professionalism to insure and sustain public confidence, remembering that both the investment instruments and the methods of transacting investment business are subject to public review and scrutiny.

ETHICS AND CONFLICT OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Merced and shall disclose

any material financial investment positions which could be related in a conflicting manner to the performance of the County of Merced investment portfolio.

POLICY SUMMATION OF BASIC STRATEGY

The basic investment strategy will be to safeguard the principal of all investments, maintain sufficient liquidity to meet the regular cashflow needs of the Treasury while reserving contingent liquidity to meet unanticipated cashflow demands, and utilize various investment approaches to take advantage of current market yield opportunities. A maximum rate of return will be sought in a manner consistent with the safeguarding of principal and meeting liquidity needs.

AUTHORITY

DELEGATION

Investment authority is delegated to the Treasurer by the Board of Supervisors, in accordance with California Government Code § 53607, by Merced County Ordinance No.1720, as codified at Chapter 5.40.

Pursuant to California Government Code § 27000.1, subject to § 53607, the Board of Supervisors may, by ordinance, delegate to the County Treasurer the authority to invest or reinvest the funds of the County and the funds of the other depositors in the County Treasury, pursuant to Chapter 4 (commencing with Government Code § 53600) of Part 1 of Division 2 of Title 5 of the Government Code. The County Treasurer shall assume full responsibility for those transactions until the Board of Supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation.

Annual approval of this Investment Policy by the Board of Supervisors constitutes renewal of the annual delegation of investment authority to the Treasurer, effective January 1st of each year.

RETENTION

The Treasurer shall retain the authority to add to, delete or amend the Investment Policies and the Investment Guidelines as is necessary to facilitate accurate and efficient transactions pertaining to the investment of idle funds, for the best interest of the County.

TREASURY OVERSIGHT COMMITTEE

Pursuant to the addition of Article 6, to Chapter 5 of Division 2 of Title 3 of the California Government Code, the County Treasurer shall create a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the County Treasury. The duties of the County Treasury Oversight Committee will be delineated in the Investment Guidelines. In compliance with California Government Code § 27131 and to maintain equity of all depositors, the membership of the County Treasury Oversight Committee shall consist of the following:

MEMBERS

The members of the Treasury Oversight Committee (TOC) shall consist of:

- The County Auditor – or alternate
- A Board of Supervisors - designee or alternate
- The Superintendent of Schools - or alternate
- A College District - designee or alternate
- A Special District - designee or alternate
- Two Members of the Public with expertise, or academic background, in public finance.

Government Code § 27133 (d) requires limits to be set on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission. TOC Members are prohibited from raising money for the County Treasurer or a Board of Supervisor (with the exception of raising money for their own position) while serving as a member on the committee.

DUTIES OF THE TREASURY OVERSIGHT COMMITTEE (TOC)

The Treasury Oversight Committee (TOC) is required annually to review and monitor the investment policy prepared by the County Treasurer, pursuant to Government Code § 27133, and to cause an annual compliance audit, pursuant to Government Code § 27134.

Established here as policy, the TOC will review and accept the Statement of Investment Policy prepared by the Treasurer in January of each year. Any revisions to the Statement of Investment Policy will also be reviewed and accepted by the TOC prior to submitting any such revisions to the Board of Supervisors for review and acceptance.

The Treasurer will annually submit the Statement of Investment Policy to the Board of Supervisors to be reviewed and accepted at a public meeting as required by Government Code § 53646. This section also requires that any change in the policy be reviewed and accepted by the Board of Supervisors at a public meeting. As a matter of policy, the Statement of Investment Policy will be accepted by the TOC prior to being submitted to the Board of Supervisors in January of each year.

ANNUAL AUDIT

As of the end of each fiscal year, the TOC shall cause an annual audit to be conducted to determine compliance with the Statement of Investment Policy and an audit of the interest apportionment. Additionally, the audit may address questions of portfolio structure and risk. The audit findings will be an agenda item at the TOC meeting following the release of the audit. The cost of the audit will be charged against the Treasurer's budget and will be included in the investment expenses which are deducted from earnings prior to interest apportionment. A copy of the annual audit will be distributed pursuant to Government Code § 53686.

MEETINGS

The TOC meets on a quarterly basis. These meetings are held within 30 days after the end of each quarter. Meeting dates and times are established at the beginning of each calendar year.

ADMINISTRATION

SAFEKEEPING

Investments are held in a third-party safekeeping custodial account designated by the Treasurer to provide the public with the highest degree of protection with regard to investments held in the portfolio. The delivery-versus-payment (DVP) purchase procedure will be used. Third-party safekeeping refers to holding securities in a trust account by an entity other than the party through whom the investment was purchased. The DVP refers to the practice of using an escrow procedure to process a transaction through the third-party safekeeper. This practice ensures that the transaction settles after the transaction terms and conditions of the parties involved have been met.

COLLATERALIZATION

Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code § 53601.7(e). In order to anticipate market changes and provide a level of security the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be marked-to-market no less frequently than weekly. A Master Repurchase Agreement is required for the authorized bank and broker/dealer accounts for all daily cash surplus (see Investment Terminology).

PERFORMANCE BENCHMARK

The investment portfolio is constructed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, matching the investment risk controls and cash flow requirements, thus preserving capital, meeting liquidity, and providing yield. The Treasurer's investment strategy is to manage the portfolio with less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. As a result the portfolio is benchmarked against both the BofA Merrill Lynch 1-3 Year US Treasury Index and the California Local Agency Investment Fund (LAIF).

INTERNAL CONTROLS & PROCEDURES

The Treasurer has established a system of written internal controls, which is reviewed annually with the County's independent (external) auditor. The controls are designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions of employees of the Treasurer's Office. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by Government Code § 26920 through 26922. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements, and trade packets will be subject to review annually by auditors in conjunction with their audit.

The Treasurer has procedures for the investment process that are consistent with this policy and are statutorily compliant. Procedures include safekeeping, master repurchase

agreements, wire transfer agreements, collateral and depository agreements, banking service contracts and other investment and banking related activities. Such procedures include explicit delegation of authority to personnel responsible for investment transactions.

The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel.

COMPETITIVE BIDDING

All transactions will be made through the use of competitive bids whenever possible. At least two (2) competitive bids will be solicited for each transaction. If the solicitation of two bids is not feasible or practical, the reason will be stated in the transaction documentation. Exceptions to the use of competitive bids may include, but are not limited to the following:

1. Market circumstances where time constraints would make the bid process impractical.
2. Investments possessing distinctive characteristics.
3. Overnight deposits where time constraints may not accommodate the bid process.
4. Transactions in which investments are actively traded and priced by market information services such as Telerate and Bloomberg, where current market price can be readily determined.

REPORTING

California Government Code § 53646 require the following regarding reporting:

The Treasurer shall annually render a Statement of Investment Policy to the Oversight Committee and to the Board of Supervisors. The Treasurer shall render quarterly an Investment Report to the County Executive Officer, the County Auditor, Board of Supervisors and Oversight Committee within 30 days following the end of the quarter covered by the report.

As required by Government Code § 53646, the quarterly report will include:

1. A ledger of daily transactions for the quarter;
2. A list of holdings as of the last day of the quarter which notes:
 - a. Type of Investment
 - b. Issuer
 - c. Date of Maturity
 - d. Par Amount
 - e. Book Value
 - f. Market Value at Quarter-end (and Source of Value);

3. A statement of compliance with the Statement of Investment Policy or an explanation of any variance;
4. A statement of the pool's ability to meet the expenditure requirements for the next six months or an explanation of why the pool cannot meet the expenditure requirements.

A monthly transaction report will be submitted to the legislative body per Government Code § 53607.

As deemed appropriate, the Treasurer or the TOC may issue additional statistical or narrative reports.

MARKED-TO-MARKET

Marked-to-Market is the requirement of the AICPA's pronouncement GASB 31 which dictates that portfolios disclose the Fair Market Value of investments on a given date. Fair Market Value can be determined by an independent agency. The cost of an independent agency is significant and we have determined that the portfolio valuation will be marked-to-market using our custodian's fair market valuation rather than incurring an additional vendor cost. Our Custodian utilizes several market pricing services, including Merrill Lynch, Bloomberg, and others.

INTEREST APPORTIONMENT

Historically, Interest Apportionment was calculated using the cash basis method of accounting. Effective July 1, 1999, the Interest Apportionment changed from the cash basis to the modified accrual basis method of accounting. All interest earnings, amortization earnings, and coupon payments are deposited into Trust Fund # 2070 Treasurer's Interest. A modified journal entry is processed to recognize the accrued interest and amortization for the quarter. Departmental treasury costs are recovered quarterly based on actual treasury expenditures. After all expenditures are netted against earnings, the net revenues are distributed to the Pool Participants through the following Interest Apportionment process.

At end of month, the Auditor-Controller's department requests report FM-0606 Average Daily Cash Balances and report FM-0606-A Interest Apportionment Control Report.

FM-0606 Average Daily Cash Balances shows each fund's cumulative balance, number of days the fund had a balance, and average balance for each fund. The cumulative balance is computed by adding the daily balances of the fund. The average balance is the cumulative balance divided by the number of days the fund had a balance.

FM-0606-A Interest Apportionment Control Report shows the Apportionment Total which was posted to each fund. The Apportionment Total is calculated as follows:

- (1) First, the system determines the fund's percent of the pool by using the following

figures calculated on report FM-0606 Average Daily Cash Balance: Cumulative balance for the fund divided by the total cumulative balance of all funds.

- (2) Next, the fund's percent of the pool is multiplied times the Net Revenues. The result is the fund's Interest Apportionment for the quarter.

VOLUNTARY DEPOSITORS

A voluntary depositor is any local agency who has applied for and been granted participation in the county investment pool. The local agency's treasurer or other official responsible for their funds has determined that they have excess funds which are not required for immediate use. Once the excess funds are identified, the local agency's legislative or governing body must adopt a resolution that authorizes the investment of the funds pursuant to Government Code § 53684, and with the consent of the County Treasurer, deposit the excess funds in the county treasury for the purpose of investment by the County Treasurer pursuant to Government Code § 53601 or 53635. The resolution shall specify that the local agency acknowledges and is willing to be bound by the withdrawal provisions of Government Code § 27136, and that administrative charges will be deducted by the Treasurer as permitted by Government Code § 53684(b) and 27013. The Treasurer shall approve or disapprove such agency's request in writing.

WITHDRAWAL OF FUNDS

Withdrawals for claims and accounts payable are to be made by auditor's warrant. Various forms of electronic transfer can be used to make withdrawals for the purpose of payroll, bond and note related transactions and to transfer investment funds.

The Treasurer's Investment Policy establishes guidelines for unusual or unexpected withdrawal of cash and provides for adequate liquidity to cover day-to-day operations of pool depositors. On occasion, depositors have need of withdrawals that exceed those normally associated with operations. It is essential that all agencies inform the Treasurer of anticipated withdrawals in excess of \$2,000,000 as far in advance as possible. To accommodate such withdrawals, the Treasurer-Tax Collector's Office has established written notification requirements as set forth below to allow for adjustments to the liquidity position of the Portfolio.

The notification required is as follows:

Withdrawals of up to \$2,000,000 - 24 hours

Withdrawals of \$2,000,001 and more - 72 hours

Failure to adhere to these requirements may result in payment being delayed by the Treasurer-Tax Collector's office.

Pursuant to CA Government Code § 27136, prior written notice is required for withdrawals from the county treasury pool for the purpose of investing or depositing funds outside of the county treasury. The written notice may be submitted via email or fax, with original request to

follow. The Treasurer will evaluate each proposal to ensure that the request will not adversely affect the interest of the other depositors in the Treasury. Should the Treasurer determine that a withdrawal for the purpose of investing or depositing funds (including reinvestment of note proceeds) outside of the county treasury would adversely affect the interest of other depositors in the pool, the Treasurer may utilize either: the provisions of Government Code § 53684 to require 30 days written notice prior to any withdrawals, or honor the withdrawal at the current market value of the portfolio. Approval of the withdrawal does not constitute approval or endorsement of the investment.

BUSINESS CONTINUITY PLAN

Merced County is located in a severe flood plain as determined by the California Office of Emergency Services. Due to the concern that mission critical functions cannot be performed, the Merced County Treasury has established a Continuity of Operations Plan (COOP) for conducting Treasury business. In the event the primary place of business is inaccessible, please refer to the Merced County COOP Plan.

Located within the Treasury department is one (1) separate and secure workstation used for the sole purpose of accessing Wells Fargo CEO web portal for wire transfers. All other information is located on the County server.

In the event we are unable to conduct normal business operations, authorized personnel shall activate the Merced County Treasury's Continuity of Operations Plan (COOP) using three (3) secure laptops at remote locations. These secure laptops are programmed to access the Wells Fargo CEO web portal and a secure cloud portal using Microsoft OneDrive for Business only, to perform the mission critical functions.

Ongoing testing of the Merced County Treasury's COOP is performed to ensure preparedness should an emergency occur.

The Plan provides for continuity of mission critical functions of the Treasury to be initiated within 0-12 hours of an event.

Mission critical functions for the Treasury have been identified as follows:

1. Project daily cash flow and ensure sufficient liquidity to meet the needs of the pool participants.
2. Reconcile daily cash with bank.
3. Reconcile daily cash to OneSolution General Ledger.
4. Reconcile daily checkbook.
5. Prepare bank deposit.
6. Evaluate Positive Pay and make decision to honor or reject.
7. Initiate wires and transfer funds as required.
8. Review and approve initiated funds wires.
9. Monitor investment portfolio and make changes as required.

In all cases, the safety of Treasury personnel is paramount. In no event will the alternate locations or processes be employed if doing so will endanger any person at any time.

AUTHORIZED INVESTMENTS & DIVERSIFICATION

Pursuant to CA Government Code § 27000 - Prudence definition,
 § 53600 - Local agency definition, § 53601 - Authorized investments
 (See Appendix 1 for complete investment listing)

The Treasurer has established the following self-imposed restrictions which exceed the statutory requirement to ensure diversification is maintained in the portfolio. The diversification is critical to reduce risks associated with investment concentration, quality and duration. The portfolio's approved Weighted Average Maturity (WAM) is not to exceed 730 days with no more than 10% held in one issuer's name. Due diligence is performed for approval of all government pools and money market accounts for short-term and overnight liquidity accounts*. Laddering, fed fund targets and other opportunities are continuously evaluated to define the strategy for the portfolio.

Government Code § 53601 INVESTMENT TYPES & RESTRICTIONS*			TREASURER IMPOSED
TYPE	MAXIMUM TERM	MAXIMUM %	RESTRICTIONS
(a) Local Agency Bonds	5 years	No limit	30%
(b) USTN, Bonds, Bills,...	5 years	No limit	50%
(c) Reg'd State Wts, TN Bonds	5 years	No limit	30%
(e) Local Agency Bonds, Notes,..	5 years	No limit	75%
(f) Agency Obligations... FNMA, FHLB...	5 years	No limit	75%
(g) Bankers Acceptances	180 days	40%; limited to 30% in one specific bank	25%; limited to 10% in one specific bank
(h) Commercial Paper	270 days	25%; limited to 10% in one single corp.issuer	20%; limited to 10% in one single corp.issuer
(i) Certificates of Deposits	5 years	30%	30%
(j) Repurchase Agreements *	1 years	20%	20%
(k) Corp. Notes (MTNs) *	5 years	30%	30%
(q) Supranationals –Int'l Bk for Recons & Devel (IBRD), Int'l Fin Corp (IFC) or Inter- American Dev Bk (IADB)	5 years	30%	30%
LAIF **	not specified	50MM	50MM or 25%

Due to fluctuations in the portfolio's balance, compliance testing is applicable on the day of purchase.

* THE COUNTY TREASURER WILL NOT PURCHASE any mortgage backed or asset backed securities, reverse repurchase agreement, strips or zero interest accrual investments, with the exception of any exposure in money markets purchased for the portfolio.

** The County has authority over two LAIF accounts; a general pool account and a Merced County Office of Education (MCOE) account.

AUTHORIZED BROKERS/DEALERS & DEPOSITORIES

Brokers, Dealers and Banks approved for transacting business with the Merced County Treasurer's office must complete a detailed questionnaire and provide audited financial statement, references and requested financial institution information. A review and approval is required before any investment services can be considered. On-going evaluations are completed on all approved broker/dealer/depositories relationships on a regular basis as deemed necessary. A current list is maintained in the Treasury and available upon request.

1. Institutions designated as primary dealers by the Federal Reserve Bank of New York, or
2. Banks identified as one of the top 100 banks in the world, or
3. Banks, brokers or dealers whose transactions are guaranteed by one of the top 100 banks in the world, or
4. Banks, brokers or dealers whose parent company is one of the top 100 banks in the world.
6. Prohibited from making Political Contributions to County officials.
6. All authorized brokers of the County certify that they have reviewed the California Government Code § 53600 et seq. and the County's Investment Policy and that all securities offered to the Merced County Treasury will comply with the provisions of the Code and Investment Policy.
7. The Treasurer has posted the "Independent Registered Municipal Advisor Exemption Notice" on the webpage at www.mercedtaxcollector.org under the Treasury tab.

REVIEW AND ANALYSIS OF PROSPECTIVE INVESTMENTS

Whenever possible, investment vehicles shall be selected according to specific needs and portfolio guidelines, as well as economic and market conditions. Due to the complexity of the various investment instruments available and uncertainty of market conditions, the Treasurer may seek professional advice in making investment decisions in order to optimize investment selections.

The portfolio is managed in accordance with Statement No. 40 of the Government Accounting Standards Board for Deposit and Investment Risk Disclosure. The investments shall be

diversified by limiting investments to avoid concentration in specific issuer or business sector; limiting investment in securities that have higher credit or liquidity risks; investing in varying maturities; and continuously investing in overnight repurchase agreements, money markets, and the California Local Agency Investment Fund (LAIF).

PUBLIC INQUIRY

The County Treasurer's portfolio and related transactions are a matter of Public Record. Any member of the public may receive a copy of the portfolio or Investment Policy by requesting a copy at the Treasurer's Office. The Treasurer may charge a fee for the copy, as prescribed by law.

MERCED COUNTY TREASURER

LISTING OF INVESTMENT TERMINOLOGY

ACCRUED INTEREST: The amount of interest that is earned, but unpaid since the last interest payment date.

AGENCY: Securities issued by government-sponsored corporations such as Federal Home Loan Banks (FHLB) or Federal Land Banks (FLB.) Agency securities are exempt from Securities and Exchange Commission (SEC) registration requirements.

AMERICAN CALL: Bonds may be called at any time following the first call or lockout period.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. It is a common practice to amortize any premium over par value paid in the purchase of bond investments or any discount under par value recognized in the purchase of bond investments.

ASKED PRICE: The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

BANKER'S ACCEPTANCE (BA): Time draft drawn on and accepted by a bank [for up to 6 months], the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. These are time drafts in which a bank "accepts" as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a MONEY MARKET instrument. The liability assumed by the bank is called its acceptance liability.

BANKER NOTE (BN): Similar to Commercial Paper (debt instrument issued by the Bank's holding company), but the Bank Note is issued directly by the Bank and not the holding company. BNs represent the highest senior debt issued by the bank, second only to Certificate of Deposit holders; highly negotiable and liquid; an allowable and accepted institutional investment form.

BASIS POINT: When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Example: 0.25% is twenty-five basis points. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BERMUDA CALL: Bonds may only be called on a pre-determined schedule of call dates. Monthly, Quarterly, Annually etc.

BID PRICE: The price at which a buyer offers to buy a security.

BOND: A long-term debt instrument in which the investor lends money to the bond issuer, who agrees to pay a stated rate of interest over a specified period of time. Very simply, a bond is a promissory note which is traded in the financial markets. The investor's position is that of lender.

BOND RATING: A rating selected from a scale which indicates the relative likelihood of default.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most money market securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together and is compensated for his/her service.

CALL OPTION: A contract which allows the holder to buy a specified quantity of an asset at a specified price on or within a specified date.

CALLABLE BONDS: Bonds which may be redeemed by the issuing company prior to the maturity date.

CANARY CALL: Bonds may be called during an open call period, if not called on the last date, then they become non callable to maturity.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a capital asset.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement or securities pledged by a financial institution to secure deposits of public moneys. Repurchase agreements are required and must be executed with approved

broker-dealers, collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy with a market value of 102%.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the County. It includes five combined statements for each individual fund necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed.

COMMERCIAL PAPER (CP): Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing. Investors (actually lenders, since commercial paper is a form of debt) like the flexibility and safety of an instrument that is issued only by top-rated concerns and is nearly always backed by bank lines of credit. Both Moody and Standard & Poor assign ratings to commercial paper.

COUPON OR COUPON RATE: The rate at which a bond pays interest. Stated as a percentage of par and computed out to a dollar amount. Example: A note with a coupon of 6% pays \$30,000 interest per million dollars of par every six months, or \$60,000 annually.

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A security whose interest rate of principal amount may vary and is determined by a market index or a combination of market indexes.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for the full face value of the investment.

DIVERSIFICATION: An investment strategy designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the “average maturity” of an investment portfolio using each investment’s maturity weighted by size of that investment.

EUROPEAN CALL: Bonds may only be called on one pre-determined date.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FED FUNDS: The settlement is to be consummated with funds on deposit at the Federal Reserve Bank; and thus available the same day. All government securities are traded on Fed Funds; also referred to as “same day funds”.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder owned corporation.

FEDERAL OPEN MARKET COMMITTEE (FOMC): This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

FIXED-INCOME SECURITIES: Securities which return a fixed income over a specified period.

FLOATING RATE NOTE: A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, ect.).

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, saving and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass-throughs” is often used to describe Ginnie Maes.

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

LOCAL AGENCY: County, city, city and county, including a charter city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

MARKET: Refers to the place, physical or electronic, that investment transactions take place. The New York Stock Exchange (NYSE) is a recognized exchange (stock market) with a physical location in New York. The Chicago Board of Trade (CBT) is a recognized exchange (commodities market) with a physical location in Chicago. The “over-the-counter” market is an electronic and phone system used to trade investments which are not traded on recognized exchanges. Bond and money market investments (fixed income securities) are traded on the “over-the-counter” market.

MARKET RISK: The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

MARK-TO-MARKET: The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A required written contract covering all future transactions between the parties to repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower (see Collateral).

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MEDIUM TERM NOTE (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term “medium-term notes” refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. MTNs issued by banks are also called “bank notes.”

MONEY MARKET: The market in which short term debt instruments (Treasury bills, discount notes, commercial paper, bankers' acceptances, ect.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invests in a variety of short-term money market instruments. The Net Asset Value (NAV) of these funds should remain at \$1.00; however, it is not guaranteed.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED RATING SERVICES: Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch Investors Service; Duff & Phelps Investment Service; Thompson Bank Watch and International Bank Credit Analyst.

NEGOTIABLE CERTIFICATE OF DEPOSIT (CD): Large-dollar-amount, short-term certificate of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and, being NEGOTIABLE, they enjoy an active SECONDARY MARKET, where they trade in round lots of \$5 million.

NET ASSET VALUE (NAV): A per-share valuation of a mutual fund based on total assets minus total liabilities.

NON CALLABLE: Bond that is exempt from any kind of redemption for a stated time period. Also known as a Bullet Bond.

OFFER PRICE: The price asked by a seller of securities.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy.

PAR VALUE: The amount of principal which must be paid at maturity; also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PLAIN VANILLA: Non-derivative investments which are not leveraged and whose interest rates do not change.

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The difference between the par value of a bond and the market value of the bond, when the market value is above par.

PRICE: The percentage of par at which a security is bought and sold. Corporate debt is traded in denominations of 100th of a percent. Government debt is traded in denominations of 32nds of a percent.

PRICE RISK: The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight.

PRIME RATE: The interest rate banks charge the biggest borrowers with the best credit ratings.

PRINCIPAL: The face value or par value of an investment.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PSA MASTER REPURCHASE AGREEMENT: A required written contract covering all future transactions between the authorized bank and the Treasurer to repurchase agreements that establish each party's rights in the transactions (see Collateral & Repurchase Agreement).

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

RECEIVABLE-BACKED SECURITIES: Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

RECEIVABLE PASS-THROUGH CERTIFICATE: A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

REGISTERED STATE WARRANT: A short-term obligation of a state governmental body issued in anticipation of revenue.

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENT (RP OR REPO): The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities at a later date at a specified price that includes interest for the buyer's holding period. In essence, this is a collateralized investment whereby the security "buyer" lends the "seller" money for the period of the agreement.

REVENUE ANTICIPATION NOTES OR RANS: Notes issued for thirteen months or less which are used to finance cashflow in anticipation of future tax revenue. Used by agencies having cashflow gaps between revenues and expenses that requires short-term interim financing. Also see Tax Anticipation Notes (TANs) and Tax and Revenue Anticipation Notes (TRANS).

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

SAFEKEEPING: The holding of securities in a segregated account by a custody agent or trustee. Transactions are escrowed through these accounts by the custody agent or trustee. Safekeeping services are typically provided by banks and other financial institutions.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SUPRANATIONALS: International institutions that provide development financing, advisory services and/or other financial services to their member countries to achieve overall goal of improving living standards through sustainable economic growth. Key features are Triple-A rated, 0% risk weighting with Basle II and III, Financial strength based on diversified, sovereign shareholders, conservative risk management, quality loan portfolio (preferred creditor status), substantial liquidity and consistent profitability strong capitalization.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, ect.) and Corporations that have imbedded options (e.g., call features, step-up coupons) into their debt structure. Their market performance is impacted by the fluctuation of

interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TAX ANTICIPATION NOTES OR TANS: Notes issued for thirteen months or less which are used to finance cashflow in anticipation of future tax revenue. Commonly used by California local governments whose primary revenues are property taxes which are collected in December and April. Also see Revenue Anticipation Notes (RANs) and Tax and Revenue Anticipation Notes (TRANS).

TAX AND REVENUE ANTICIPATION NOTES OR TRANS: Notes issued for thirteen months or less. They are a combination of Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs). Also see Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs).

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

TREASURIES: Securities issued by the U.S. Treasury and backed by the FULL FAITH & CREDIT of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal taxes.

TREASURY BILLS: Non-interest bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

TREASURY NOTES (USTN): Interest-bearing obligations issued by the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

TREASURY BONDS: Interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

YANKEE BANK: A foreign bank with operations in the U.S. Bonds issued by these banks are called Yankee bonds.

YIELD: The annual rate of return on a debt investment computed as though held to maturity expressed in %.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cashflows and timing factors: interest earnings, discounts, and premiums above par.

ZERO-COUPON BONDS/U.S. TREASURY STRIPS: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. "Zero" or "strips" mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.



MERCED COUNTY TREASURY INVESTMENT REPORT



For the
Quarter Ending December 31, 2019





Contents

Report of Quarter Ending December 31, 2019

Portfolio Review	1
Allocation by Security Type	2
Distribution by Maturity	3
Portfolio Summary by Type	4
Historic Quarter End Book Values	5
Portfolio Review for Five Consecutive Quarters	6
Sympro Investment Summary	7
Investment Detail	8
Investment Purchases	13
Investment Maturities	14
Investment Sales and Calls	15
Contact Us	17



PORTFOLIO REVIEW FOR THE QUARTER ENDING DECEMBER 31, 2019

Portfolio Composition:

Book Value of Assets Held	\$1,069,970,807
Market Value of Assets Held	\$1,074,551,684
Assets Maturing Within 90 Days	\$355,345,645
Percentage of Market to Book Value	100.43%
Weighted Average Maturity	533 days

Return on Assets:

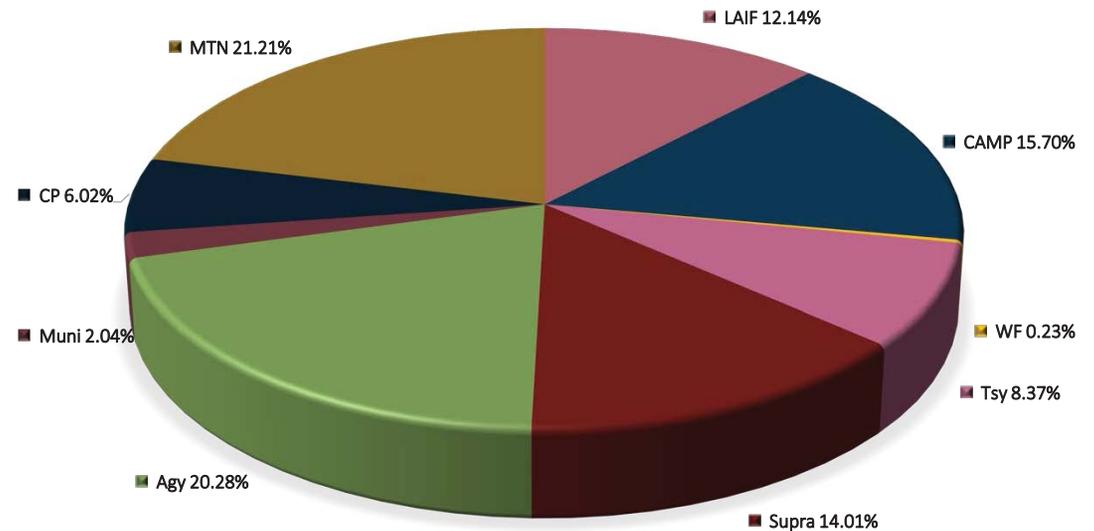
Total Earnings Quarter Ended	\$5,096,750
Total Earnings Fiscal YTD	\$10,374,814
Rate of Return QTR	2.16%
Rate of Return YTD	2.22%



INVESTMENT POOL Allocation by Security Type December 31, 2019

SECTOR	12/31/2019	9/30/2019	% Chng
LAIF	12.14%	6.40%	5.74%
CAMP	15.70%	13.48%	2.22%
Wells Fargo Account	0.23%	0.28%	-0.05%
U.S. Treasuries	8.37%	7.44%	0.93%
Supranational	14.01%	16.57%	-2.56%
Federal Agency	20.28%	28.63%	-8.35%
Municipal Securities	2.04%	2.02%	0.02%
Commercial Paper	6.02%	1.07%	4.95%
Medium Term Notes	21.21%	24.11%	-2.90%
Total	100.00%	100.00%	

SECTOR	12/31/2019	9/30/2019
LAIF	\$ 130,000,000.00	\$ 60,000,000.00
CAMP	167,863,281.00	125,430,566.76
Wells Fargo Account	2,482,364.23	2,617,234.59
U.S. Treasuries	90,000,000.00	70,000,000.00
Supranational	149,835,000.00	154,835,000.00
Federal Agency	216,355,000.00	266,355,000.00
Municipal Securities	21,780,000.00	18,765,000.00
Commercial Paper	65,000,000.00	10,000,000.00
Medium Term Notes	227,500,000.00	225,500,000.00
Total Book Value	\$ 1,070,815,645.23	\$ 933,502,801.35



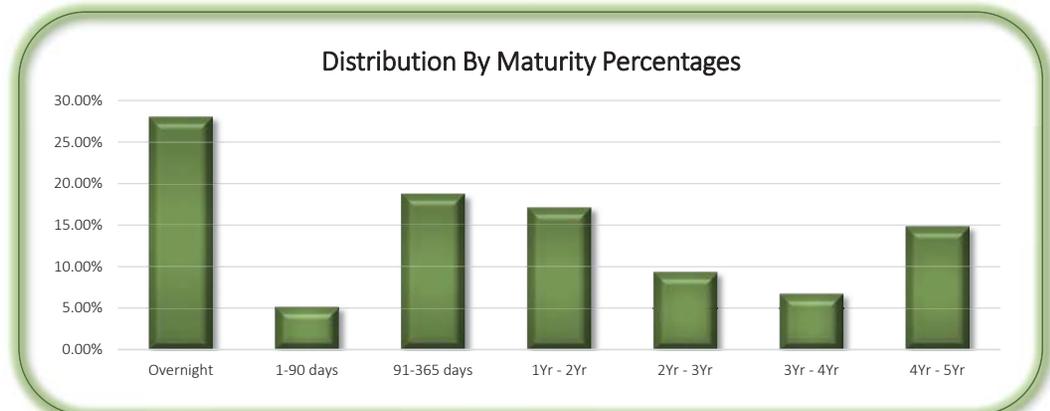
INVESTMENT POOL

Distribution by Maturity

December 31, 2019

Maturity	Par Amount
Overnight	\$ 300,345,645.25
1-90 days	55,000,000.00
91-365 days	200,755,000.00
1Yr - 2Yr	183,060,000.00
2Yr - 3Yr	100,270,000.00
3Yr - 4Yr	72,265,000.00
4Yr - 5Yr	159,120,000.00
Total Par Value	\$ 1,070,815,645.25

Maturity	Par %
Overnight	28.05%
1-90 days	5.14%
91-365 days	18.75%
1Yr - 2Yr	17.10%
2Yr - 3Yr	9.36%
3Yr - 4Yr	6.75%
4Yr - 5Yr	14.86%
	100.00%

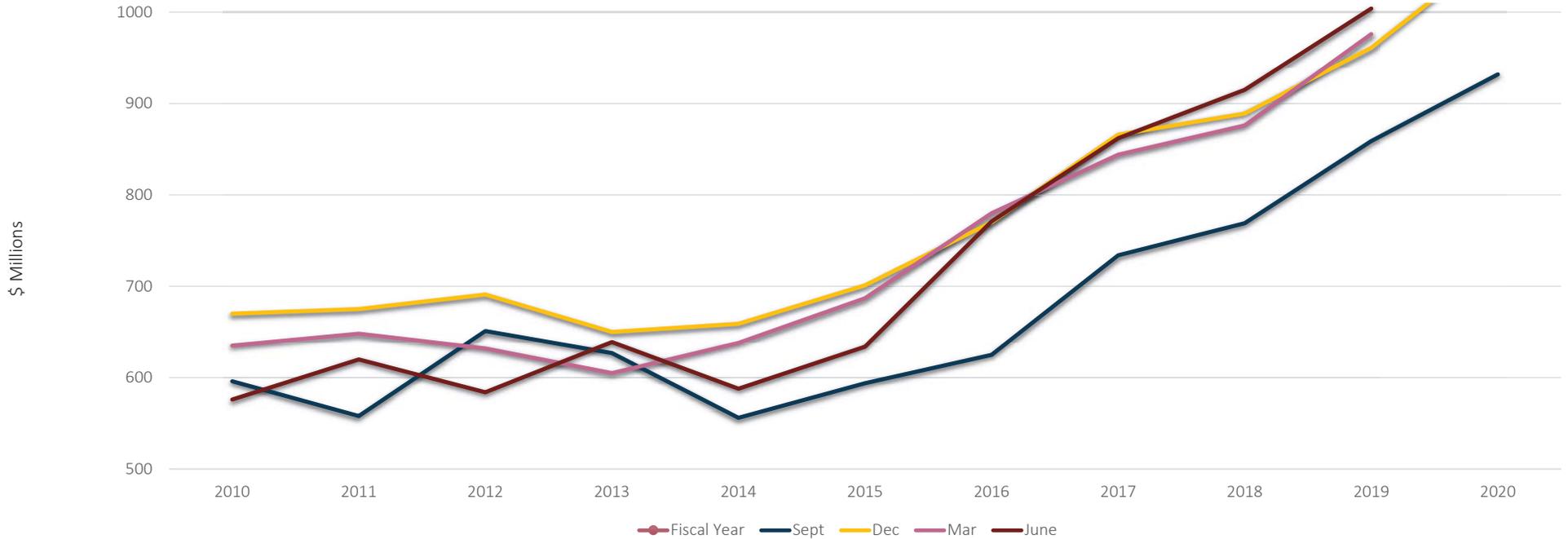


MERCED COUNTY TREASURY
Summary by Type
December 31, 2019

Security Type	Number of Investments	Par Value	Book Value	Percent of Portfolio	Compliance % Allowed *	In Compliance
Treasury Coupon Securities	16	90,000,000.00	89,597,462.03	8.37%	30.00%	YES
Supranationals - IBRD, IFC, IADB	28	149,835,000.00	149,888,719.29	14.01%	30.00%	YES
Federal Agency / GSE	36	216,355,000.00	216,942,643.94	20.28%	75.00%	YES
Municipal Bonds	9	21,780,000.00	21,832,479.76	2.04%	75.00%	YES
Commercial Paper	4	65,000,000.00	64,434,438.76	6.02%	30.00%	YES
Medium Term Notes	41	227,500,000.00	226,929,418.72	21.21%	30.00%	YES
LAIF	2	130,000,000.00	130,000,000.00	12.14%	25.00%	YES
Managed Pool Accounts	2	170,345,645.20	170,345,645.20	15.93%	25.00%	YES
 MERCED COUNTY TREASURER-TAX COLLECTOR Karen D. Adams, CPA	138	1,070,815,645.25	1,069,970,807.75	100.00%		

*Compliance percentage is calculated at the time the investment is purchased, as percentages change daily due to fluctuating amounts in overnight accounts.

Investment Pool Historic Quarter End Book Values FY 2010 to 2020



Fiscal Year	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Sept	596	558	651	627	556	594	625	734	769	859	932
Dec	670	675	691	650	659	701	770	866	889	961	1,069
Mar	635	648	632	605	638	687	780	844	876	976	
June	576	620	584	639	588	634	771	862	915	1004	

Investment Pool Portfolio Review of Five Quarters

Quarter Ending	<u>Dec. 31, 2019</u>	<u>Sept. 30, 2019</u>	<u>Jun. 30, 2019</u>	<u>Mar. 31, 2019</u>	<u>Dec. 31, 2018</u>
Portfolio Composition:					
Book Value of Assets Held	\$1,069,970,808	\$932,196,149	\$1,004,985,280	\$976,330,685	\$960,803,524
Market Value of Assets Held	\$1,074,551,684	\$937,453,313	\$1,008,741,167	\$975,449,687	\$956,437,043
Assets Maturing Within 90 Days	\$355,345,645	\$233,047,801	\$368,933,636	\$279,210,783	\$338,461,752
Percentage of Market to Book Value	100.43%	100.56%	100.37%	99.91%	99.55%
Weighted Average Maturity (WAM)	533 days	640 days	487 days	450 days	419 days
Return on Assets:					
Total Earning Quarter Ended	\$5,096,750	\$5,261,069	\$5,853,310	\$5,286,664	\$4,453,168
Total Earning Fiscal YTD	\$10,374,814	\$5,261,069	\$19,651,966	\$13,778,907	\$8,422,063
Rate of Return QTR	2.16%	2.28%	2.37%	2.31%	2.02%
Rate of Return YTD	2.22%	2.28%	2.17%	2.09%	1.95%
Rate of Return QTR					
CAMP	1.91%	2.30%	2.52%	2.62%	2.36%
LAIF	2.29%	2.34%	2.57%	2.55%	2.40%



MERCED COUNTY TREASURY
Portfolio Management
Portfolio Summary
December 31, 2019

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.	YTM 365 Equiv.
Managed Pool Accounts	297,863,281.02	297,863,281.02	297,863,281.02	27.84	1	1	1.880	1.906
Treasury Coupon Securities	90,000,000.00	90,024,850.00	89,597,462.03	8.37	1,215	767	1.903	1.930
Supranational - IBRD, IFC, IADB	149,835,000.00	150,446,136.95	149,888,719.29	14.01	1,074	561	2.079	2.108
Federal Agency Coupon Securities	216,355,000.00	217,221,252.85	216,942,643.94	20.28	1,493	987	1.922	1.948
Municipal Bonds	21,780,000.00	21,928,252.50	21,832,479.76	2.04	1,292	806	2.064	2.092
Commercial Paper Disc. -Amortizing	65,000,000.00	64,431,467.60	64,434,438.76	6.02	240	172	1.904	1.930
Medium Term Notes	227,500,000.00	230,154,079.00	226,929,418.72	21.21	1,200	770	2.601	2.637
Passbook/Checking Accounts	2,482,364.23	2,482,364.23	2,482,364.23	0.23	1	1	1.618	1.640
Investments	1,070,815,645.25	1,074,551,684.15	1,069,970,807.75	100.00%	851	533	2.076	2.105
Cash and Accrued Interest								
Accrued Interest at Purchase		341,926.69	341,926.69					
Subtotal		341,926.69	341,926.69					
Total Cash and Investments	1,070,815,645.25	1,074,893,610.84	1,070,312,734.44		851	533	2.076	2.105

Total Earnings	December 31 Month Ending	Fiscal Year To Date
Current Year	1,813,358.20	10,374,814.10
Average Daily Balance	1,007,204,918.40	927,562,176.77
Effective Rate of Return	2.12%	2.22%

I hereby certify that this report includes all investments in the investment pool and is in accordance with the investment policy. I further certify that the investments meet the County's cash flow needs for the next six months.

KAREN D. ADAMS, CPA, TREASURER

MERCED COUNTY TREASURY
Portfolio Management
Portfolio Details - Investments
December 31, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Managed Pool Accounts												
CAMP	1001C	California Asset Mgt Program			167,863,281.02	167,863,281.02	167,863,281.02	1.800	AAA	1.800	1	
LAIF	1001A	Local Agency Investment Fund			65,000,000.00	65,000,000.00	65,000,000.00	2.043		2.043	1	
LAIF	1001B	Local Agency Investment Fund			65,000,000.00	65,000,000.00	65,000,000.00	2.043		2.043	1	
Subtotal and Average			231,058,305.93		297,863,281.02	297,863,281.02	297,863,281.02			1.906	1	
Treasury Coupon Securities												
912828M98	2170	US Treasury Notes		12/14/2016	5,000,000.00	4,998,850.00	4,995,040.93	1.625	AAA	1.738	334	11/30/2020
912828L99	2188	US Treasury Notes		04/10/2017	5,000,000.00	4,988,500.00	4,988,673.08	1.375	AAA	1.657	304	10/31/2020
912828S76	2189	US Treasury Notes		04/11/2017	5,000,000.00	4,962,700.00	4,948,383.83	1.125	AAA	1.807	577	07/31/2021
912828P87	2190	US Treasury Notes		04/11/2017	5,000,000.00	4,970,700.00	4,966,441.98	1.125	AAA	1.725	424	02/28/2021
912828XM7	2238	US Treasury Notes		01/25/2018	5,000,000.00	4,999,800.00	4,985,295.82	1.625	AAA	2.148	212	07/31/2020
912828N89	2239	US Treasury Notes		01/25/2018	5,000,000.00	4,986,150.00	4,955,926.13	1.375	AAA	2.220	396	01/31/2021
9128283S7	2245	US Treasury Notes		02/02/2018	5,000,000.00	5,001,350.00	4,999,404.40	2.000	AAA	2.149	30	01/31/2020
912828XM7	2275	US Treasury Notes		11/05/2018	5,000,000.00	4,999,800.00	4,964,602.23	1.625	AAA	2.883	212	07/31/2020
912828S35	2334	US Treasury Notes		04/30/2019	10,000,000.00	9,912,900.00	9,698,055.60	1.375	AAA	2.286	1,276	06/30/2023
912828Q29	2335	US Treasury Notes		04/30/2019	10,000,000.00	9,963,700.00	9,759,335.69	1.500	AAA	2.279	1,185	03/31/2023
912828D56	2350	US Treasury Notes		08/20/2019	5,000,000.00	5,153,150.00	5,201,214.32	2.375	AAA	1.468	1,688	08/15/2024
912828S92	2351	US Treasury Notes		08/20/2019	5,000,000.00	4,933,000.00	4,961,735.56	1.250	AAA	1.471	1,307	07/31/2023
912828P87	2361	US Treasury Notes		10/11/2019	5,000,000.00	4,970,700.00	4,971,195.65	1.125	AAA	1.627	424	02/28/2021
912828Y87	2362	US Treasury Notes		11/21/2019	5,000,000.00	5,016,000.00	5,034,315.29	1.750	AAA	1.594	1,673	07/31/2024
9128284T4	2365	US Treasury Notes		11/21/2019	5,000,000.00	5,072,650.00	5,072,525.13	2.625	AAA	1.610	531	06/15/2021
9128286C9	2370	US Treasury Notes		12/05/2019	5,000,000.00	5,094,900.00	5,095,316.39	2.500	AAA	1.581	776	02/15/2022
Subtotal and Average			88,928,660.15		90,000,000.00	90,024,850.00	89,597,462.03			1.930	767	
Supranational - IBRD, IFC, IADB												
4581X0CW6	2179	Inter-American Development Bk		01/18/2017	5,000,000.00	5,043,250.00	4,997,481.92	2.125	AAA	2.151	748	01/18/2022
4581X0CP1	2184	Inter-American Development Bk		03/13/2017	5,000,000.00	5,002,300.00	5,000,611.89	1.875	AAA	1.847	167	06/16/2020
4581X0CX4	2193	Inter-American Development Bk		04/13/2017	5,000,000.00	4,997,100.00	4,999,527.50	1.625	AAA	1.652	132	05/12/2020
4581X0CS5	2228	Inter-American Development Bk		12/13/2017	5,000,000.00	5,010,350.00	4,988,650.09	1.875	AAA	2.070	439	03/15/2021
4581X0CX4	2262	Inter-American Development Bk		08/07/2018	5,000,000.00	4,997,100.00	4,981,010.16	1.625	AAA	2.700	132	05/12/2020
4581X0CX4	2276	Inter-American Development Bk		11/06/2018	5,000,000.00	4,997,100.00	4,977,518.86	1.625	AAA	2.897	132	05/12/2020
4581X0CS5	2277	Inter-American Development Bk		11/14/2018	5,000,000.00	5,010,350.00	4,930,900.59	1.875	AAA	3.071	439	03/15/2021
4581X0DF2	2307	Inter-American Development Bk		01/16/2019	5,000,000.00	5,169,050.00	4,978,417.50	2.625	AAA	2.740	1,476	01/16/2024
4581X0CX4	2328	Inter-American Development Bk		04/11/2019	5,000,000.00	4,997,100.00	4,986,296.93	1.625	AAA	2.391	132	05/12/2020
4581X0DH8	2367	Inter-American Development Bk		11/22/2019	5,000,000.00	5,017,800.00	5,019,497.00	1.875	AAA	1.620	569	07/23/2021
4581X0DA3	2368	Inter-American Development Bk		11/22/2019	5,000,000.00	5,119,000.00	5,129,979.05	2.500	AAA	1.621	1,113	01/18/2023

MERCED COUNTY TREASURY
Portfolio Management
Portfolio Details - Investments
December 31, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Supranational - IBRD, IFC, IADB												
459058FA6	2187	Intl Bnk for Recons & Dev		04/11/2017	5,000,000.00	4,995,200.00	4,997,864.50	1.376	AAA	1.553	89	03/30/2020
459058FM0	2209	Intl Bnk for Recons & Dev		07/12/2017	5,000,000.00	4,979,850.00	4,982,349.55	1.126	AAA	1.724	222	08/10/2020
45905UP73	2216	Intl Bnk for Recons & Dev		10/16/2017	5,000,000.00	5,000,600.00	5,000,000.00	1.950	AAA	1.950	289	10/16/2020
459058FH1	2219	Intl Bnk for Recons & Dev		11/30/2017	5,000,000.00	4,980,950.00	4,954,513.40	1.376	AAA	2.054	509	05/24/2021
459058DT7	2261	Intl Bnk for Recons & Dev		06/06/2018	5,000,000.00	5,043,600.00	4,965,388.98	2.250	AAA	2.740	540	06/24/2021
459058GH0	2263	Intl Bnk for Recons & Dev		08/06/2018	5,000,000.00	5,083,150.00	4,991,809.65	2.750	AAA	2.860	569	07/23/2021
459058GH0	2330	Intl Bnk for Recons & Dev		04/12/2019	5,000,000.00	5,083,150.00	5,032,515.23	2.750	AAA	2.319	569	07/23/2021
45905U2Y9	2333	Intl Bnk for Recons & Dev		04/30/2019	10,000,000.00	10,000,000.00	10,000,000.00	2.500	AAA	2.501	940	07/29/2022
45905UP73	2336	Intl Bnk for Recons & Dev		05/02/2019	5,000,000.00	5,000,600.00	4,983,547.23	1.950	AAA	2.375	289	10/16/2020
459058GX5	2343	Intl Bnk for Recons & Dev		07/10/2019	5,000,000.00	5,026,250.00	4,999,481.10	1.875	AAA	1.878	1,265	06/19/2023
45905U4L5	2358	Intl Bnk for Recons & Dev		09/30/2019	10,000,000.00	9,903,400.00	10,000,000.00	1.820	AAA	1.820	1,636	06/24/2024
459058GH0	2360	Intl Bnk for Recons & Dev		10/15/2019	5,000,000.00	5,083,150.00	5,090,289.97	2.750	AAA	1.572	569	07/23/2021
459058GH0	2363	Intl Bnk for Recons & Dev		11/21/2019	5,000,000.00	5,083,150.00	5,084,066.61	2.750	AAA	1.653	569	07/23/2021
45950KCG3	2192	Intl Fin Corp		04/13/2017	5,000,000.00	4,995,850.00	4,998,287.72	1.625	AAA	1.690	197	07/16/2020
45950KCL2	2203	Intl Fin Corp		06/07/2017	5,000,000.00	4,999,900.00	5,002,460.02	1.750	AAA	1.546	89	03/30/2020
45950KCG3	2210	Intl Fin Corp		07/13/2017	5,000,000.00	4,995,850.00	4,998,478.53	1.625	AAA	1.684	197	07/16/2020
45950KCG3	2242	Intl Fin Corp		02/02/2018	4,835,000.00	4,830,986.95	4,817,775.31	1.625	AAA	2.305	197	07/16/2020
Subtotal and Average			152,138,212.33		149,835,000.00	150,446,136.95	149,888,719.29			2.108	561	
Federal Agency Coupon Securities												
3133EGFN0	2123	Federal Farm Credit Bank		06/15/2016	5,000,000.00	4,996,100.00	5,000,000.00	1.400	AAA	1.400	166	06/15/2020
3133EGD69	2148	Federal Farm Credit Bank		11/16/2016	5,000,000.00	4,994,300.00	4,997,733.81	1.320	AAA	1.453	127	05/07/2020
3133EGU60	2162	Federal Farm Credit Bank		12/14/2016	5,000,000.00	5,000,100.00	5,000,000.00	1.820	AAA	1.820	257	09/14/2020
3133EKNX0	2338	Federal Farm Credit Bank		06/05/2019	5,000,000.00	5,087,950.00	5,037,719.24	2.160	AAA	1.980	1,615	06/03/2024
3133EKWC6	2344	Federal Farm Credit Bank		07/26/2019	5,000,000.00	5,012,350.00	5,000,000.00	2.000	AAA	2.000	1,302	07/26/2023
3133EKXN1	2345	Federal Farm Credit Bank		07/30/2019	10,000,000.00	9,930,600.00	10,000,000.00	2.240	AAA	2.240	1,672	07/30/2024
3133EKZV1	2346	Federal Farm Credit Bank		08/16/2019	5,000,000.00	4,999,300.00	4,997,209.06	1.550	AAA	1.585	593	08/16/2021
3133EKZN9	2348	Federal Farm Credit Bank		08/14/2019	5,000,000.00	4,938,000.00	4,994,225.96	2.060	AAA	2.086	1,686	08/13/2024
3133EKZV1	2349	Federal Farm Credit Bank		08/16/2019	5,000,000.00	4,999,300.00	4,988,828.13	1.550	AAA	1.690	593	08/16/2021
3133EKH41	2354	Federal Farm Credit Bank		09/06/2019	10,000,000.00	9,965,500.00	10,000,000.00	2.000	AAA	1.990	1,707	09/03/2024
3133EKF27	2355	Federal Farm Credit Bank		09/06/2019	10,000,000.00	9,979,900.00	9,998,661.21	1.850	AAA	1.855	968	08/26/2022
3130A8QD8	2142	Federal Home Loan Bank		11/16/2016	4,545,000.00	4,533,955.65	4,539,592.47	1.230	AAA	1.459	195	07/14/2020
3130AAKW7	2176	Federal Home Loan Bank		01/10/2017	5,000,000.00	5,039,600.00	4,997,873.75	1.950	AAA	1.972	740	01/10/2022
3130A8QS5	2218	Federal Home Loan Bank		11/30/2017	5,000,000.00	4,962,650.00	4,940,628.83	1.125	AAA	1.929	560	07/14/2021
3130ACN83	2232	Federal Home Loan Bank		12/29/2017	5,000,000.00	5,001,650.00	4,994,474.07	1.700	AAA	2.005	135	05/15/2020
313383YJ4	2306	Federal Home Loan Bank		01/10/2019	5,000,000.00	5,304,550.00	5,117,812.77	3.375	AAA	2.690	1,346	09/08/2023
3130AFNZ6	2310	Federal Home Loan Bank		01/29/2019	5,000,000.00	5,004,300.00	5,000,000.00	3.000	AAA	3.000	1,489	01/29/2024

MERCED COUNTY TREASURY
Portfolio Management
Portfolio Details - Investments
December 31, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Federal Agency Coupon Securities												
3130AFQR1	2311	Federal Home Loan Bank		01/22/2019	5,000,000.00	5,042,850.00	5,000,000.00	2.830	AAA	2.830	1,482	01/22/2024
313383HU8	2324	Federal Home Loan Bank		04/03/2019	5,000,000.00	5,001,400.00	4,985,513.75	1.750	AAA	2.410	163	06/12/2020
3130AGL45	2339	Federal Home Loan Bank		06/21/2019	10,000,000.00	10,021,200.00	10,000,000.00	2.250	AAA	2.250	1,633	06/21/2024
3130A1XJ2	2342	Federal Home Loan Bank		07/09/2019	5,000,000.00	5,249,750.00	5,206,222.56	2.875	AAA	1.900	1,626	06/14/2024
3130AGWU5	2352	Federal Home Loan Bank		08/21/2019	5,000,000.00	4,948,100.00	5,000,000.00	2.000	AAA	2.000	1,694	08/21/2024
3130AGXF7	2353	Federal Home Loan Bank		08/26/2019	5,000,000.00	4,949,200.00	5,000,000.00	1.650	AAA	1.650	1,699	08/26/2024
3134GAYX6	2152	Federal Home Loan Mtg Corp		11/30/2016	5,000,000.00	5,000,750.00	5,000,000.00	1.875	AAA	1.875	695	11/26/2021
3134GBEB4	2185	Federal Home Loan Mtg Corp		04/06/2017	5,000,000.00	5,002,400.00	5,000,000.00	1.700	AAA	1.700	86	03/27/2020
3134GTPD9	2337	Federal Home Loan Mtg Corp		05/20/2019	10,000,000.00	10,058,100.00	10,000,000.00	2.400	AAA	2.400	1,601	05/20/2024
3136G4HH9	2146	Federal National Mortgage Assn		11/30/2016	5,000,000.00	4,999,150.00	5,000,000.00	1.500	AAA	1.500	56	02/26/2020
3135G0Q89	2149	Federal National Mortgage Assn		11/17/2016	5,000,000.00	4,981,000.00	4,969,627.39	1.375	AAA	1.735	645	10/07/2021
3135G0K69	2163	Federal National Mortgage Assn		12/09/2016	10,000,000.00	9,952,900.00	9,927,784.81	1.250	AAA	1.810	491	05/06/2021
3135G0S46	2191	Federal National Mortgage Assn		04/11/2017	5,000,000.00	5,000,100.00	4,999,927.63	1.650	AAA	1.670	26	01/27/2020
3135G0T60	2222	Federal National Mortgage Assn		12/01/2017	5,000,000.00	4,995,350.00	4,989,277.58	1.500	AAA	1.880	211	07/30/2020
3136G04T5	2234	Federal National Mortgage Assn		12/29/2017	5,000,000.00	4,998,300.00	4,991,390.00	1.500	AAA	1.979	134	05/14/2020
3135G0V75	2364	Federal National Mortgage Assn		11/21/2019	5,000,000.00	5,005,700.00	5,024,837.12	1.750	AAA	1.635	1,644	07/02/2024
3132X0SA0	2194	Farmer Mac		04/19/2017	5,000,000.00	4,998,600.00	4,999,872.17	1.640	AAA	1.649	107	04/17/2020
31422BKC3	2347	Farmer Mac		08/20/2019	10,000,000.00	9,992,400.00	9,986,091.67	1.650	AAA	1.670	1,693	08/20/2024
742651DT6	2341	Private Export Funding		07/05/2019	6,810,000.00	7,273,897.20	7,257,339.96	3.550	AAA	1.847	1,475	01/15/2024
Subtotal and Average			226,779,713.99		216,355,000.00	217,221,252.85	216,942,643.94			1.948	987	
Municipal Bonds												
91412GTB1	2159	University of California		12/09/2016	1,275,000.00	1,281,081.75	1,280,093.69	3.016	AA	1.895	135	05/15/2020
13063DAD0	2195	State of California		04/27/2017	2,000,000.00	2,028,020.00	2,000,000.00	2.367	AA	2.367	821	04/01/2022
13063DAC2	2196	State of California		04/27/2017	4,000,000.00	4,043,280.00	4,019,413.01	2.625	AA	2.218	456	04/01/2021
13063DAD0	2197	State of California		04/27/2017	3,150,000.00	3,194,131.50	3,157,651.62	2.367	AA	2.252	821	04/01/2022
13063DAD0	2369	State of California		12/06/2019	2,500,000.00	2,535,025.00	2,533,830.84	2.367	AA	1.750	821	04/01/2022
684133LA7	2371	Orange School Dist		12/19/2019	2,220,000.00	2,221,509.60	2,217,461.07	1.950	AA	2.000	851	05/01/2022
684133KZ3	2372	Orange School Dist		12/19/2019	2,060,000.00	2,058,928.80	2,059,155.90	1.850	AA	1.881	486	05/01/2021
684133LC3	2374	Orange School Dist		12/19/2019	2,310,000.00	2,301,660.90	2,304,269.08	2.100	AA	2.161	1,582	05/01/2024
684133LB5	2375	Orange School Dist		12/19/2019	2,265,000.00	2,264,614.95	2,260,604.55	2.050	AA	2.111	1,216	05/01/2023
Subtotal and Average			16,452,824.45		21,780,000.00	21,928,252.50	21,832,479.76			2.092	806	
Commercial Paper Disc. -Amortizing												
9659BG61	2359	BNP Paribas		10/10/2019	20,000,000.00	19,809,912.00	19,808,493.47	1.830	A-1	1.908	187	07/06/2020
13607EH36	2373	Canadian Imperial Bank NY		12/05/2019	25,000,000.00	24,727,900.00	24,733,798.62	1.775	A-1	1.849	215	08/03/2020

MERCED COUNTY TREASURY
Portfolio Management
Portfolio Details - Investments
December 31, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Commercial Paper Disc. -Amortizing												
63873JAF7	2340	Natixis NY Branch		07/03/2019	10,000,000.00	9,993,250.00	9,991,755.90	2.110	A-1	2.210	14	01/15/2020
63873JGF1	2376	Natixis NY Branch		12/10/2019	10,000,000.00	9,900,405.60	9,900,390.77	1.820	A-1	1.895	196	07/15/2020
Subtotal and Average			58,327,193.51		65,000,000.00	64,431,467.60	64,434,438.76			1.930	172	
Medium Term Notes												
05253JAM3	2283	Aust & NZ Banking Group		12/06/2018	5,000,000.00	5,027,050.00	4,919,197.77	2.300	AA	3.501	517	06/01/2021
037833AK6	2260	Apple Inc		06/04/2018	5,000,000.00	5,085,300.00	4,895,190.22	2.400	AAA	3.081	1,218	05/03/2023
037833AR1	2272	Apple Inc		10/15/2018	5,000,000.00	5,077,150.00	4,985,178.80	2.850	AAA	3.080	491	05/06/2021
037833AK6	2323	Apple Inc		04/04/2019	5,000,000.00	5,085,300.00	4,960,642.48	2.400	AAA	2.650	1,218	05/03/2023
037833AK6	2325	Apple Inc		04/05/2019	5,000,000.00	5,085,300.00	4,948,661.17	2.400	AAA	2.727	1,218	05/03/2023
037833DM9	2357	Apple Inc		09/11/2019	10,000,000.00	9,938,000.00	9,958,782.78	1.800	AAA	1.892	1,715	09/11/2024
084670BR8	2254	Berkshire Hathaway Fin		04/02/2018	5,000,000.00	5,127,100.00	4,958,092.26	2.750	AA	3.033	1,169	03/15/2023
084670BC1	2284	Berkshire Hathaway Fin		12/13/2018	5,500,000.00	5,679,520.00	5,542,270.19	3.750	AA	3.250	592	08/15/2021
166764AR1	2198	Chevron Corp		05/15/2017	5,000,000.00	4,999,100.00	5,000,129.17	1.961	AA	1.945	62	03/03/2020
166764AT7	2270	Chevron Corp		09/13/2018	5,000,000.00	5,066,050.00	4,927,524.24	2.411	AA	3.120	792	03/03/2022
166764BG4	2274	Chevron Corp		11/05/2018	5,000,000.00	5,031,600.00	4,929,580.68	2.100	AA	3.174	501	05/16/2021
17275RAX0	2246	CISCO Systems Inc		02/09/2018	5,000,000.00	5,014,800.00	4,999,321.51	2.450	AA	2.480	166	06/15/2020
17275RBH4	2319	CISCO Systems Inc		03/15/2019	5,000,000.00	5,063,200.00	4,919,824.80	2.200	AA	2.660	1,358	09/20/2023
17275RAX0	2331	CISCO Systems Inc		04/15/2019	5,000,000.00	5,014,800.00	4,998,627.48	2.450	AA	2.510	166	06/15/2020
17325FAE8	2312	Citibank NA		01/18/2019	5,100,000.00	5,102,499.00	5,077,924.79	2.100	A	3.096	163	06/12/2020
30231GAV4	2235	Exxon		01/10/2018	5,000,000.00	5,029,500.00	4,996,063.66	2.222	AA	2.292	425	03/01/2021
30231GAV4	2248	Exxon		02/15/2018	5,000,000.00	5,029,500.00	4,973,941.61	2.222	AA	2.690	425	03/01/2021
30231GAV4	2278	Exxon		12/03/2018	5,000,000.00	5,029,500.00	4,945,862.62	2.222	AA	3.190	425	03/01/2021
30231GBC5	2356	Exxon		09/09/2019	10,000,000.00	10,036,200.00	10,082,266.18	2.019	AA	1.829	1,689	08/16/2024
44932HAG8	2313	International Business Machine		08/06/2018	5,000,000.00	5,045,750.00	4,979,072.86	2.650	AA	3.050	401	02/05/2021
458140BB5	2377	Intel Corp		12/13/2019	10,000,000.00	10,132,400.00	10,104,781.11	2.350	A	1.878	861	05/11/2022
46625HHS2	2250	JP Morgan Chase		03/29/2018	5,000,000.00	5,068,900.00	5,037,980.07	4.400	A	2.980	203	07/22/2020
46625HJD3	2289	JP Morgan Chase		12/18/2018	5,000,000.00	5,250,100.00	5,092,941.58	4.500	A	3.540	754	01/24/2022
594918BP8	2175	Microsoft Corp		01/10/2017	5,000,000.00	4,993,400.00	4,958,160.50	1.550	AAA	2.100	585	08/08/2021
594918BV5	2183	Microsoft Corp		02/06/2017	5,000,000.00	4,999,800.00	5,000,009.72	1.850	AAA	1.847	36	02/06/2020
594918BH6	2253	Microsoft Corp		04/02/2018	5,000,000.00	5,120,800.00	4,969,977.59	2.650	AAA	2.877	1,037	11/03/2022
594918BA1	2258	Microsoft Corp		04/27/2018	5,000,000.00	5,068,050.00	4,929,614.47	2.375	AAA	3.085	773	02/12/2022
594918BX1	2322	Microsoft Corp		04/03/2019	10,000,000.00	10,376,600.00	10,098,079.46	2.875	AAA	2.618	1,497	02/06/2024
594918BP8	2366	Microsoft Corp		11/22/2019	7,000,000.00	6,990,760.00	6,993,771.02	1.550	AAA	1.606	585	08/08/2021
2205	2205	Mosquito Abatement Depot Note		07/03/2017	400,000.00	400,000.00	400,000.00	4.000		4.000	911	06/30/2022
68389XBB0	2329	Oracle Corp		04/12/2019	10,000,000.00	10,131,300.00	9,980,587.42	2.500	AA	2.585	865	05/15/2022
742718DY2	2269	Procter & Gamble		08/09/2018	5,000,000.00	5,067,750.00	4,928,253.98	2.300	AA	3.026	767	02/06/2022

MERCED COUNTY TREASURY
Portfolio Management
Portfolio Details - Investments
December 31, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	S&P	YTM 365	Days to Maturity	Maturity Date
Medium Term Notes												
89236TDP7	2174	Toyota Mtr Credit		01/10/2017	5,000,000.00	5,075,650.00	5,011,572.18	2.600	AA	2.478	741	01/11/2022
89236TDZ5	2204	Toyota Mtr Credit		06/29/2017	5,000,000.00	4,966,000.00	5,000,000.00	2.000	AA	2.000	363	12/29/2020
89236TCF0	2279	Toyota Mtr Credit		12/03/2018	5,000,000.00	5,001,300.00	4,991,569.72	2.150	AA	3.026	71	03/12/2020
89236TFQ3	2304	Toyota Mtr Credit		01/08/2019	4,500,000.00	4,554,450.00	4,500,091.75	3.050	AA	3.048	373	01/08/2021
89236TFX8	2326	Toyota Mtr Credit		04/12/2019	5,000,000.00	5,089,250.00	4,997,605.42	2.650	AA	2.672	832	04/12/2022
91159HHV5	2314	US Bancorp		02/28/2019	5,000,000.00	5,250,600.00	5,062,253.07	3.375	AA	3.040	1,496	02/05/2024
949746SA0	2316	Wells Fargo		03/01/2019	5,000,000.00	5,007,350.00	4,937,490.75	2.100	A	2.930	572	07/26/2021
94988J5N3	2318	Wells Fargo		03/15/2019	5,000,000.00	5,035,050.00	4,989,120.00	2.600	A	2.815	380	01/15/2021
949746SA0	2327	Wells Fargo		04/11/2019	5,000,000.00	5,007,350.00	4,947,403.64	2.100	A	2.795	572	07/26/2021
		Subtotal and Average	226,548,236.55		227,500,000.00	230,154,079.00	226,929,418.72			2.637	770	
Passbook/Checking Accounts												
WF FUND SWEEP	1001W	Wells Fargo Fund Sweep			2,482,364.23	2,482,364.23	2,482,364.23	1.640		1.640	1	
		Subtotal and Average	6,971,771.48		2,482,364.23	2,482,364.23	2,482,364.23			1.640	1	
		Total and Average	1,007,204,918.40		1,070,815,645.25	1,074,551,684.15	1,069,970,807.75			2.105	533	



MERCED COUNTY TREASURY
Purchases Report
Sorted by Fund - Purchase Date
October 1, 2019 - December 31, 2019

CUSIP	Investment #	Fund	Sec. Type	Issuer	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued at Purchase	Rate at Purchas	Maturity Date	YTM	Ending Book Value
Interest Apportionment Fund													
9659BG61	2359	2070	ACP	BNP	20,000,000.00	10/10/2019	07/06 - At Maturity	19,725,500.00		1.830	07/06/2020	1.882	19,808,493.47
912828P87	2361	2070	TRC	USTN	5,000,000.00	10/11/2019	02/29 - 08/31	4,965,625.00	6,335.85	1.125	02/28/2021	1.627	4,971,195.65
459058GH0	2360	2070	MC1	IBRD	5,000,000.00	10/15/2019	01/23 - 07/23	5,102,500.00	31,319.44	2.750	07/23/2021	1.572	5,090,289.97
3135G0V75	2364	2070	FAC	FNMA	5,000,000.00	11/21/2019	01/02 - 07/02	5,025,450.00	32,326.39	1.750	07/02/2024	1.635	5,024,837.12
459058GH0	2363	2070	MC1	IBRD	5,000,000.00	11/21/2019	01/23 - 07/23	5,090,050.00	45,069.44	2.750	07/23/2021	1.653	5,084,066.61
912828Y87	2362	2070	TRC	USTN	5,000,000.00	11/21/2019	01/31 - 07/31	5,035,156.25	26,868.21	1.750	07/31/2024	1.594	5,034,315.29
9128284T4	2365	2070	TRC	USTN	5,000,000.00	11/21/2019	12/15 - 06/15	5,078,125.00	Received	2.625	06/15/2021	1.610	5,072,525.13
4581X0DH8	2367	2070	MC1	IADB	5,000,000.00	11/22/2019	01/23 - 07/23	5,020,850.00	30,989.58	1.875	07/23/2021	1.620	5,019,497.00
4581X0DA3	2368	2070	MC1	IADB	5,000,000.00	11/22/2019	01/18 - 07/18	5,134,600.00	43,055.56	2.500	01/18/2023	1.621	5,129,979.05
594918BP8	2366	2070	MTN	MIC	7,000,000.00	11/22/2019	02/08 - 08/08	6,993,350.00	31,344.44	1.550	08/08/2021	1.606	6,993,771.02
13607EH36	2373	2070	ACP	CAN BK	25,000,000.00	12/05/2019	08/03 - At Maturity	24,701,701.39		1.775	08/03/2020	1.824	24,733,798.62
9128286C9	2370	2070	TRC	USTN	5,000,000.00	12/05/2019	02/15 - 08/15	5,098,632.81	38,043.48	2.500	02/15/2022	1.581	5,095,316.39
13063DAD0	2369	2070	MUN	CALIF	2,500,000.00	12/06/2019	04/01 - 10/01	2,534,875.00	10,684.38	2.367	04/01/2022	1.750	2,533,830.84
63873JGF1	2376	2070	ACP	NATIXI	10,000,000.00	12/10/2019	07/15 - At Maturity	9,889,788.89		1.820	07/15/2020	1.869	9,900,390.77
458140BB5	2377	2070	MTN	INTEL	10,000,000.00	12/13/2019	05/11 - 11/11	10,107,000.00	20,888.89	2.350	05/11/2022	1.878	10,104,781.11
684133LA7	2371	2070	MUN	ORANGE	2,220,000.00	12/19/2019	05/01 - 11/01	2,217,424.80		1.950	05/01/2022	2.000	2,217,461.07
684133KZ3	2372	2070	MUN	ORANGE	2,060,000.00	12/19/2019	05/01 - 11/01	2,059,134.80		1.850	05/01/2021	1.881	2,059,155.90
684133LC3	2374	2070	MUN	ORANGE	2,310,000.00	12/19/2019	05/01 - 11/01	2,304,225.00		2.100	05/01/2024	2.161	2,304,269.08
684133LB5	2375	2070	MUN	ORANGE	2,265,000.00	12/19/2019	05/01 - 11/01	2,260,560.60		2.050	05/01/2023	2.111	2,260,604.55
			Subtotal		128,355,000.00			128,344,549.54	316,925.66				128,438,578.64
			Total Purchases		128,355,000.00			128,344,549.54	316,925.66				128,438,578.64

Received = Accrued Interest at Purchase was received by report ending date.



MERCED COUNTY TREASURY
Maturity Report
Sorted by Maturity Date
Receipts during October 1, 2019 - December 31, 2019

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
4581X0CR7	2178	2070	MC1	IADB	5,000,000.00	10/15/2019	01/12/2017	1.250	5,000,000.00	31,250.00	5,031,250.00	31,250.00
48127HAA7	2280	2070	MTN	JP MOR	10,000,000.00	10/22/2019	12/03/2018	2.200	10,000,000.00	110,000.00	10,110,000.00	110,000.00
3135G0R39	2150	2070	FAC	FNMA	5,000,000.00	10/24/2019	11/17/2016	1.000	5,000,000.00	25,000.00	5,025,000.00	25,000.00
3134GBR95	2226	2070	FAC	FHLMC	5,000,000.00	10/30/2019	12/12/2017	1.625	5,000,000.00	40,625.00	5,040,625.00	40,625.00
459058FS7	2143	2070	MC1	IBRD	5,000,000.00	11/27/2019	11/18/2016	1.126	5,000,000.00	28,150.00	5,028,150.00	28,150.00
3136G4HF3	2144	2070	FAC	FNMA	5,000,000.00	11/29/2019	11/29/2016	1.350	5,000,000.00	33,750.00	5,033,750.00	33,750.00
3130A8FB4	2122	2070	FAC	FHLB	5,000,000.00	12/13/2019	06/13/2016	1.350	5,000,000.00	33,750.00	5,033,750.00	33,750.00
3133EGU86	2171	2070	FAC	FFCB	5,000,000.00	12/19/2019	12/19/2016	1.500	5,000,000.00	37,500.00	5,037,500.00	37,500.00
Total Maturities					45,000,000.00				45,000,000.00	340,025.00	45,340,025.00	340,025.00



MERCED COUNTY TREASURY
Sales/Call Report
 Sorted by Maturity Date - Maturity Date
 October 1, 2019 - December 31, 2019

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date Matur. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
01/23/2020												
90331HNJ8	2252	2070	US BNK MTN	03/29/2018	12/23/2019 01/23/2020	5,000,000.00	2.350	4,998,470.18	5,000,000.00	48,958.34	5,048,958.34	50,488.16
					Subtotal	5,000,000.00		4,998,470.18	5,000,000.00	48,958.34	5,048,958.34	50,488.16
02/01/2020												
13034PZE0	2214	2070	CALIF MUN	09/27/2017	11/01/2019 02/01/2020	3,340,000.00	2.150	3,342,411.21	3,340,000.00	17,952.50	3,357,952.50	15,541.29
					Subtotal	3,340,000.00		3,342,411.21	3,340,000.00	17,952.50	3,357,952.50	15,541.29
12/01/2020												
749846UL5	2259	2070	RACINE MUN	05/31/2018	12/01/2019 12/01/2020	5,000,000.00	3.050	4,994,520.00	5,000,000.00	76,250.00	5,076,250.00	81,730.00
					Subtotal	5,000,000.00		4,994,520.00	5,000,000.00	76,250.00	5,076,250.00	81,730.00
04/28/2021												
459058FDO	2101	2070	IBRD MC1	04/28/2016	10/28/2019 04/28/2021	10,000,000.00	1.500 V	10,000,000.00	10,000,000.00	75,000.00	10,075,000.00	75,000.00
					Subtotal	10,000,000.00		10,000,000.00	10,000,000.00	75,000.00	10,075,000.00	75,000.00
06/01/2021												
3134GBTJ1	2220	2070	FHLMC FAC	11/30/2017	12/01/2019 06/01/2021	5,000,000.00	1.830	4,983,298.97	5,000,000.00	45,750.00	5,045,750.00	62,451.03
					Subtotal	5,000,000.00		4,983,298.97	5,000,000.00	45,750.00	5,045,750.00	62,451.03
11/24/2021												
3134GAZB3	2145	2070	FHLMC FAC	11/30/2016	11/24/2019 11/24/2021	5,000,000.00	2.000 V	5,000,000.00	5,000,000.00	50,000.00	5,050,000.00	50,000.00
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	50,000.00	5,050,000.00	50,000.00
12/15/2021												
45905UB37	2165	2070	IBRD MC1	12/16/2016	12/15/2019 12/15/2021	5,000,000.00	2.000	4,996,998.33	5,000,000.00	50,000.00	5,050,000.00	53,001.67
					Subtotal	5,000,000.00		4,996,998.33	5,000,000.00	50,000.00	5,050,000.00	53,001.67
12/28/2021												

MERCED COUNTY TREASURY
Sales/Call Report
October 1, 2019 - December 31, 2019

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date Matur. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
12/28/2021												
3130AAEX2	2164	2070	FHLB FAC	12/28/2016	12/02/2019 12/28/2021	5,000,000.00	2.150	5,000,000.00	5,000,000.00	45,986.11	5,045,986.11	45,986.11
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	45,986.11	5,045,986.11	45,986.11
12/30/2021												
3134GAYV0	2147	2070	FHLMC FAC	12/30/2016	12/30/2019 12/30/2021	5,000,000.00	2.000	5,000,000.00	5,000,000.00	50,000.00	5,050,000.00	50,000.00
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	50,000.00	5,050,000.00	50,000.00
07/25/2022												
3133EHSB0	2212	2070	FFCB FAC	08/09/2017	11/25/2019 07/25/2022	5,000,000.00	2.100	5,000,000.00	5,000,000.00	35,000.00	5,035,000.00	35,000.00
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	35,000.00	5,035,000.00	35,000.00
10/16/2023												
3134GTGB3	2332	2070	FHLMC FAC	04/22/2019	10/16/2019 10/16/2023	5,000,000.00	2.750	5,000,000.00	5,000,000.00	68,750.00	5,068,750.00	68,750.00
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	68,750.00	5,068,750.00	68,750.00
					Total Sales	58,340,000.00		58,315,698.69	58,340,000.00	563,646.95	58,903,646.95	587,948.26



Contact Us

Merced County Treasury

(209) 385-7307

Mercedtaxcollector.org

APPENDIX H
SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN