

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 29, 2019

NEW ISSUE—FULL BOOK-ENTRY

RATINGS: Moody's: "Aa2"; Standard & Poor's: "AA"
See "MISCELLANEOUS – Ratings" herein

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

\$100,000,000*
DESERT SANDS UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Election of 2014 General Obligation Bonds, Series 2019

Dated: Date of Delivery

Due: August 1, as shown on the inside cover

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

The Desert Sands Unified School District (Riverside County, California) Election of 2014 General Obligation Bonds, Series 2019 (the "Bonds"), were authorized at an election of the registered voters of the Desert Sands Unified School District (the "District") held on November 4, 2014, at which the requisite 55% of the persons voting on the proposition voted to authorize the issuance and sale of \$225,000,000 aggregate principal amount of general obligation bonds of the District. The Bonds are being issued to (i) finance the acquisition, construction, modernization and equipping of District sites and facilities, and (ii) pay the costs of issuance of the Bonds.

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

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (collectively referred to herein as "DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the Bonds, but will instead receive credit balances on the books of their respective nominees. The Bonds will be dated as of their date of initial delivery (the "Date of Delivery") and will be issued as current interest bonds, such that interest thereon will accrue from the Date of Delivery and be payable semiannually on February 1 and August 1 of each year, commencing August 1, 2019. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof.

Payments of principal of and interest on the Bonds will be made by the designated Paying Agent to DTC for subsequent disbursement to DTC Participants (defined herein) who will remit such payments to the Beneficial Owners of the Bonds. U.S. Bank National Association has been appointed to act as Paying Agent for the Bonds.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as further described herein.*

Maturity Schedule
(see inside cover page)

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel. Certain matters will be passed on for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about _____, 2019.



RBC Capital Markets®

Dated: _____, 2019

* 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 them 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 the 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.

MATURITY SCHEDULE

\$100,000,000 *
DESERT SANDS UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Election of 2014 General Obligation Bonds, Series 2019

Base CUSIP[†]: 250433

\$ _____ Serial Bonds				
Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP[†] Suffix

\$ _____ – _____% Term Bonds due August 1, 20__ – Yield _____%⁽¹⁾; CUSIP Suffix[†]: _____

⁽¹⁾ Yield to call at par on August 1, 20__.

* Preliminary, subject to change.

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

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

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

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

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

Wendy Jonathan, *President*
Linda Porras, *Vice President/Clerk*
Ana M. Conover, *Member*
Donald B. Griffith, *Member*
Gary Tomak, *Member*

DISTRICT ADMINISTRATION

Scott Bailey, *Superintendent*
Jordan Aquino, *Assistant Superintendent, Business Services*
Dr. Donna Salazar, *Assistant Superintendent, Personnel*
Daniel Miller, *Assistant Superintendent, Educational Services*
Laura Fisher, *Assistant Superintendent, Student Support Services*
Patrick Cisneros, *Director of Facilities Services*

PROFESSIONAL SERVICES

BOND COUNSEL AND DISCLOSURE COUNSEL

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

MUNICIPAL ADVISOR

Fieldman, Rolapp & Associates, Inc.
Irvine, California

PAYING AGENT

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

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\$100,000,000*
DESERT SANDS UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Election of 2014 General Obligation Bonds, Series 2019

INTRODUCTION

This Official Statement, which includes the cover page, inside cover page and appendices hereto, provides information in connection with the sale of the Desert Sands Unified School District (Riverside County, California) Election of 2014 General Obligation Bonds, Series 2019 (the “Bonds”).

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

General

The Desert Sands Unified School District (the “District”), located in Riverside County (the “County”), provides elementary and secondary levels of education under a single Board of Education and centralized administration. Established in 1966, the District currently operates 18 elementary schools, one charter elementary school, six middle schools, one charter middle school, four comprehensive high schools, two continuation high schools, and one Alternative Education School. The District encompasses approximately 752 square miles of the southern part of the County, serving the cities of Indio, Coachella, La Quinta, Indian Wells, Palm Desert, Rancho Mirage and the community of Bermuda Dunes. For fiscal year 2018-19, taxable property within the District has an assessed valuation of \$40,299,857,131 and the District’s average daily attendance (“ADA”) is projected to be 25,119 students.

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

For more information regarding the District generally, see “DISTRICT FINANCIAL INFORMATION” and “DESERT SANDS UNIFIED SCHOOL DISTRICT,” and for more information regarding the District’s assessed valuation, see “TAX BASE FOR PAYMENT OF BONDS” herein. The District’s audited financial statements for fiscal year ended June 30, 2018 are attached hereto as APPENDIX B and should be read in their entirety.

Purpose of the Bonds

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

* Preliminary, subject to change.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and pursuant to a resolution adopted by the Board on January 15, 2019 (the “Resolution”). See “THE BONDS – Authority for Issuance” herein.

Sources of Payment for the Bonds

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

Description of the Bonds

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

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

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount, or any integral multiple thereof.

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

Payments. The Bonds will be dated as of the date of their initial delivery (the “Date of Delivery”). Interest on the Bonds accrues from the Date of Delivery, and is payable semiannually on each February 1 and August 1 (each a “Bond Payment Date”), commencing August 1, 2019. Principal of the Bonds is payable on August 1 in the amounts and years as set forth on the inside cover page hereof. Payments of the principal of and interest on the Bonds will be made by the designated paying agent, registrar and transfer agent (the “Paying Agent”) to DTC for subsequent disbursement through DTC Participants (defined herein) to the Beneficial Owners of the Bonds. U.S. Bank National Association, Los Angeles, California, has been appointed as agent of the Treasurer and Tax Collector of the County (the “Treasurer”) to act as Paying Agent for the Bonds.

* Preliminary, subject to change.

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California (“Bond Counsel”), based on existing statutes, regulations, rulings and judicial decisions and assuming the accuracy of certain opinions and representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California (the “State”) personal income tax. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State personal income tax. See “TAX MATTERS” herein.

Offering and Delivery of the Bonds

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

Bond Owner’s Risks

The Bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes which may be levied on all taxable property in the District, without limitation as to rate or amount (except with respect to certain personal property which is taxable at limited rates). For more complete information regarding the taxation of property within the District, and certain other matters, see “TAX BASE FOR PAYMENT OF BONDS” and “LIMITATION ON REMEDIES; BANKRUPTCY” herein.

Continuing Disclosure

Pursuant to that certain Continuing Disclosure Certificate relating to the Bonds, the District will covenant for the benefit of the Owners and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain listed events, in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the “Rule”). See “LEGAL MATTERS – Continuing Disclosure” herein. The specific nature of the information to be made available and the notices of listed events required to be provided are described in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE FOR THE BONDS” attached hereto.

Professionals Involved in the Offering

Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. Fieldman, Rolapp & Associates, Inc., Irvine, California is acting as Municipal Advisor to the District with respect to the Bonds. Bond Counsel/Disclosure Counsel and the Municipal Advisor will each receive compensation from the District contingent upon the sale and delivery of the Bonds. Certain matters will be passed on

* Preliminary, subject to change.

for the Underwriter (defined below) by Norton Rose Fulbright US LLP, Los Angeles, California. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

Forward-Looking Statements

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

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

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California 92253, telephone: (760) 777-4200. The District may impose a charge for copying, mailing and handling.

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each such documents, statutes and constitutional provisions.

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

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

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code of the State of California (the "Act"), commencing with Section 53506 *et seq.*, as amended, Article XIII A of the California Constitution and the Resolution. The District received authorization at an election held on November 4, 2014 by the requisite 55% of the votes cast by eligible voters within the District to issue \$225,000,000 aggregate principal amount of general obligation bonds (the "2014 Authorization"). The Bonds are the second series of bonds issued under the 2014 Authorization, and following the issuance thereof, \$50,000,000* of the 2014 Authorization will remain unissued.

Security and Sources of Payment

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

Such *ad valorem* property taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest thereon when due. The levy may include an allowance for an annual reserve, established for the purpose of avoiding fluctuating tax levies. While the County has historically levied *ad valorem* property taxes to establish such a reserve for other bonds of the District, the County is not obligated to establish or maintain such a reserve, and the District can make no representations that the County will do so in future years. Such taxes, when collected, will be placed by the County in the Debt Service Fund (defined herein) established by the Resolution, which is required to be segregated and maintained by the County and which is designated for the payment of the Bonds and interest thereon when due, and for no other purpose. Pursuant to the Resolution, the District has pledged funds on deposit in the Debt Service Fund to the payment of the Bonds. Although the County is obligated to levy *ad valorem* property taxes for the payment of the Bonds as described above, and will maintain the Debt Service Fund, the Bonds are not a debt of the County.

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

The amount of the annual *ad valorem* property taxes levied by the County to repay the Bonds as described above will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rates to fluctuate. Economic and other factors beyond the District's control, such as general market

* Preliminary, subject to change.

decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State of California (the “State”) and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood, fire, drought or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the respective annual tax rates. For further information regarding the District’s assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” and “TAX BASE FOR PAYMENT OF BONDS” herein.

Statutory Lien

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

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

General Provisions

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

Interest on the Bonds accrues from the Date of Delivery, and is payable semiannually on each Bond Payment Date, commencing August 1, 2019. Interest on the Bonds will be computed on the basis of a 360-day year of 12, 30-day months. Each Bond will bear interest from the Bond Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Bond Payment Date to that Bond Payment Date, inclusive, in which event it will bear interest from such Bond Payment Date, or unless it is authenticated on or before July 15, 2019, in which event it will bear interest from the Date of Delivery. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on August 1, in the years and amounts set forth on the cover page hereof.

The principal of the Bonds will be payable in lawful money of the United States of America to the registered Owner thereof, upon the surrender thereof at the designated office of the Paying Agent. The interest on the Bonds will be payable in lawful money to the person whose name appears on the bond registration books of the Paying Agent as the registered Owner thereof as of the close of business on the

15th day of the month preceding any Bond Payment Date (a “Record Date”), whether or not such day is a business day. Such interest is to be paid by wire transfer on such Bond Payment Date to such registered Owner to the bank and account number on file with the Paying Agent as of the Record Date. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. So long as the Bonds are held in the book-entry system of DTC, all payments of principal of and interest on the Bonds will be made by the Paying Agent to Cede & Co. (as a nominee of DTC), as the registered Owner of the Bonds.

Annual Debt Service

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

Year Ending <u>August 1</u>	Prior Outstanding <u>Bonds</u>	Annual Principal <u>Payment</u>	Annual Interest <u>Payment</u>⁽¹⁾	Total Annual <u>Debt Service</u>
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⁽¹⁾ Interest payments on the Bonds will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2019.

See also “DESERT SANDS UNIFIED SCHOOL DISTRICT – District Debt Structure – General Obligation Bonds” herein for a breakdown by issuance of the District’s general obligation bonded debt.

Application and Investment of Bond Proceeds

The proceeds of the sale from the Bonds, net of costs of issuance and any premium received upon the sale thereof, will be deposited by the County to the credit of a building fund created by the Resolution (the "Building Fund"), and will be applied solely for the capital project purposes for which the Bonds are being issued. Interest earnings in the Building Fund will be retained therein. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued, upon written notice from the District, will be transferred to the Debt Service Fund and applied to the payment of the principal of and interest on the Bonds.

The *ad valorem* property taxes levied by the County for the payment of the Bonds, when collected, are required to be held separate and apart by the County in debt service a fund created by the Resolution (the "Debt Service Fund"), and used only for payment of principal of and interest on Bonds. Any accrued interest and net premium received upon the sale of the Bonds will be deposited in the Debt Service Fund. Any interest earnings on moneys held in the Debt Service Fund will be retained therein. If, after all of the Bonds have been redeemed or paid and otherwise cancelled, there are moneys remaining in the Debt Service Fund, said moneys will be transferred to the general fund of the District as provided and permitted by law.

Moneys in the Debt Service Fund and the Building Fund are expected to be invested through the County's pooled investment fund. See "APPENDIX E - RIVERSIDE COUNTY INVESTMENT POOL" herein.

Redemption

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

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

Redemption Date
(August 1)

Principal Amount

⁽¹⁾ Maturity.

* Preliminary, subject to change.

In the event that the Term Bonds are optionally redeemed in part, the remaining mandatory sinking fund payments with respect to such Term Bonds shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000 principal amount, in respect to the portion of such Term Bonds optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made for the optional redemption of Bonds and less than all Bonds are to be redeemed, the Paying Agent, upon written instruction from the District, shall select Bonds for redemption as so directed and if not directed, in inverse order of maturity. Within a maturity, the Paying Agent, shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that with respect to redemption by lot, the portion of any Bond to be redeemed in part shall be in a principal amount of \$5,000, or any integral multiple thereof.

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

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

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

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

A certificate of the Paying Agent or the District that a Redemption Notice has been given as provided in the Resolution will be conclusive as against all parties. Neither failure to receive any Redemption Notice nor any defect in any such Redemption Notice so given will affect the sufficiency of the proceedings for the redemption of the affected Bonds. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Bonds will bear or include the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

Payment of Redeemed Bonds. When a Redemption Notice has been given substantially as described above, and, when the amount necessary for the redemption of the Bonds called for redemption (principal, interest, and premium, if any) is irrevocably set aside in trust for that purpose, as described in “—Defeasance,” the Bonds designated for redemption in such notice will become due and payable on the date fixed for redemption thereof and upon presentation and surrender of said Bonds at the place specified in the Redemption Notice, said Bonds will be redeemed and paid at the redemption price out of such funds. All unpaid interest payable at or prior to the redemption date will continue to be payable to the respective Owners, but without interest thereon.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amounts to the unredeemed portion of the Bond surrendered. Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the District will be released and discharged thereupon from all liability to the extent of such payment.

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

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

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys shall be held irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, and, accrued interest thereon to the date fixed for redemption, then such Bonds will no longer be deemed outstanding and shall be surrendered to the Paying Agent for cancellation.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC or the Direct 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) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC or the Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with the Direct Participants or Indirect Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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 is rated "AA+" by Standard & Poor's. 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.

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 Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds or distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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

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

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

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the designated office of the Paying Agent, initially located in Los Angeles, California. Interest on the Bonds will be paid by the Paying Agent by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of like Series, tenor, maturity and Transfer Amount (which with respect to any outstanding Bonds means the principal amount thereof) upon presentation and surrender at the designated office of the Paying Agent, together with a request for exchange signed by the registered Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the registration books of the Paying Agent only upon presentation and surrender of the Bond at the designated office of the Paying Agent together with an assignment executed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new bond or bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

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

Defeasance

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

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

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

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

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of the Bonds
Original Issue Premium
Total Sources

Uses of Funds

Deposit to Building Fund
Deposit to Debt Service Fund
Costs of Issuance⁽¹⁾
Underwriter’s Discount
Total Uses

⁽¹⁾ Reflects all costs of issuance, including the underwriting discount, legal and municipal advisory fees, printing costs, rating agency fee, and the costs and fees of the Paying Agent.

TAX BASE FOR PAYMENT OF BONDS

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

Ad Valorem Property Taxation

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

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." A supplemental roll is developed when property changes hands or new construction is completed. The County levies and collects all property taxes for property falling within the County's taxing boundaries.

The valuation of secured property is established as of January 1 and is subsequently enrolled in August. Property taxes on the secured roll are payable in two installments, due November 1 and February 1 of the calendar year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment plus any additional amount determined by the Treasurer. After the second installment of taxes on the secured roll is delinquent, the tax collector shall collect a cost of \$10 for preparing the delinquent tax records and giving notice of delinquency. Property on the secured roll with delinquent taxes is declared tax-defaulted on July 1 of the calendar year. Such property may thereafter be redeemed, until the right of redemption is terminated, by payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer.

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

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

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

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

Assessed Valuations

The following table represents a 10-year history of assessed valuations in the District.

**ASSESSED VALUATIONS
Fiscal Years 2009-10 through 2018-19
Desert Sands Unified School District**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>% Change</u>
2009-10	\$34,397,952,171	\$2,094,892	\$826,541,512	\$35,226,588,575	--
2010-11	32,640,030,469	2,094,892	768,219,487	33,410,344,848	(5.16)%
2011-12	31,390,889,522	2,094,892	703,294,335	32,096,278,749	(3.93)
2012-13	31,205,081,734	1,953,521	669,656,716	31,876,691,971	(0.68)
2013-14	32,265,711,046	1,953,521	708,719,098	32,976,383,665	3.45
2014-15	34,080,738,595	1,953,521	628,566,725	34,711,258,841	5.26
2015-16	35,756,804,222	1,953,521	632,385,882	36,391,143,625	4.84
2016-17	36,902,759,084	1,953,521	643,600,589	37,548,313,194	3.18
2017-18	37,968,805,070	1,953,521	656,473,798	38,627,232,389	2.87
2018-19	39,631,110,983	3,151,328	665,594,820	40,299,857,131	4.33

Source: California Municipal Statistics, Inc.; Percent change figures provided by the Municipal Advisor.

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

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

APPROPRIATIONS – Article XIII A of the California Constitution” herein.

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

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” herein. Such reductions are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIII A.

No assurance can be given that property tax appeals or actions by the County Assessor in the future will not significantly reduce the assessed valuation of property within the District.

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

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

ASSESSED VALUATION OF SINGLE FAMILY HOMES
Fiscal Year 2018-19
Desert Sands Unified School District

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	53,957	\$23,484,278,505	\$435,241	\$300,900

2018-19 Assessed Valuation	No. of Parcels⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	678	1.257%	1.257%	\$25,648,955	0.109%	0.109%
50,000 - 99,999	2,242	4.155	5.412	177,410,032	0.755	0.865
100,000 - 149,999	4,660	8.637	14.048	586,509,320	2.497	3.362
150,000 - 199,999	5,484	10.164	24.212	962,767,550	4.100	7.462
200,000 - 249,999	6,747	12.504	36.716	1,529,059,240	6.511	13.973
250,000 - 299,999	7,032	13.033	49.749	1,930,266,524	8.219	22.192
300,000 - 349,999	6,084	11.276	61.025	1,970,549,953	8.391	30.583
350,000 - 399,999	4,884	9.052	70.076	1,819,188,851	7.746	38.329
400,000 - 449,999	2,998	5.556	75.632	1,269,399,364	5.405	43.735
450,000 - 499,999	2,292	4.248	79.880	1,085,973,259	4.624	48.359
500,000 - 549,999	1,532	2.839	82.720	802,307,630	3.416	51.775
550,000 - 599,999	1,299	2.407	85.127	746,488,056	3.179	54.954
600,000 - 649,999	982	1.820	86.947	613,364,122	2.612	57.566
650,000 - 699,999	898	1.664	88.611	605,469,906	2.578	60.144
700,000 - 749,999	788	1.460	90.072	570,762,677	2.430	62.574
750,000 - 799,999	585	1.084	91.156	452,175,039	1.925	64.500
800,000 - 849,999	535	0.992	92.147	440,181,487	1.874	66.374
850,000 - 899,999	294	0.545	92.692	256,482,476	1.092	67.466
900,000 - 949,999	256	0.474	93.167	236,253,850	1.006	68.472
950,000 - 999,999	197	0.365	93.532	192,054,590	0.818	69.290
1,000,000 and greater	<u>3,490</u>	<u>6.468</u>	100.000	<u>7,211,965,624</u>	<u>30.710</u>	100.000
Total	53,957	100.000%		\$23,484,278,505	100.000%	

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

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

ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2018-19
Desert Sands Unified School District

	2018-19 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Agricultural/Rural	\$85,421,648	0.22%	112	0.07%
Commercial/Industrial/Recreation	6,107,157,910	15.41	4,622	3.05
Vacant Commercial	368,697,431	0.93	1,167	0.77
Government/Social/Institutional	55,102,369	0.14	360	0.24
Miscellaneous Vacant/Desert	229,870,626	0.58	10,483	6.92
Miscellaneous	<u>14,934,624</u>	<u>0.04</u>	<u>152</u>	<u>0.10</u>
Subtotal Non-Residential	\$6,861,184,608	17.31%	16,896	11.15%
Residential:				
Single Family Residence	\$23,484,278,505	59.26%	53,957	35.62%
Condominium/Townhouse	6,499,346,548	16.40	22,132	14.61
Mobile Home	550,650,334	1.39	5,995	3.96
Mobile Home Park	64,371,732	0.16	285	0.19
2+ Residential Units/Apartments	879,305,949	2.22	1,047	0.69
Timeshare Interests	280,739,351	0.71	44,958	29.68
Miscellaneous Residential	18,151,602	0.05	100	0.07
Vacant Residential	<u>993,082,354</u>	<u>2.51</u>	<u>6,101</u>	<u>4.03</u>
Subtotal Residential	\$32,769,926,375	82.69%	134,575	88.85%
Total	\$39,631,110,983	100.00%	151,471	100.00%

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

Assessed Valuation by Jurisdiction. The following table shows the District's assessed valuation by jurisdiction for fiscal year 2018-19.

ASSESSED VALUATION AND PARCELS BY JURISDICTION
Fiscal Year 2018-19
Desert Sands Unified School District

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Coachella	\$133,423,161	0.33%	\$1,906,096,736	7.00%
City of Indian Wells	5,918,382,889	14.69	5,918,382,889	100.00
City of Indio	7,276,674,019	18.06	8,431,580,963	86.30
City of La Quinta	8,087,618,680	20.07	13,401,036,081	60.35
City of Palm Desert	13,722,355,642	34.05	15,044,824,909	91.21
City of Rancho Mirage	1,714,433,621	4.25	8,631,235,907	19.86
Unincorporated Riverside County	<u>3,446,969,119</u>	<u>8.55</u>	43,011,850,793	8.01
Total District	\$40,299,857,131	100.00%		
Riverside County	\$40,299,857,131	100.00%	\$280,327,986,244	14.38%

Source: California Municipal Statistics, Inc.

Secured Tax Charges and Delinquencies

The following tables show secured tax charges and delinquency information for the District for fiscal years 2013-14 through 2017-18.

SECURED TAX CHARGES AND DELINQUENCIES Fiscal Years 2013-14 through 2017-18 Desert Sands Unified School District

	<u>Secured Tax Charge⁽¹⁾</u>	<u>Amount Delinquent June 30</u>	<u>% Delinquent June 30</u>
2013-14	\$34,973,332.22	\$462,400.63	1.32%
2014-15	37,071,122.11	417,889.16	1.13
2015-16	38,716,331.09	483,806.05	1.25
2016-17	31,492,841.87	343,869.13	1.09
2017-18	27,363,762.61	269,277.51	0.98

⁽¹⁾ General obligation bond debt service levy.
Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment - “Teeter Plan”

Under the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code, each participating local agency levying property taxes, including community college districts, receives from the county or counties in which it is located the amount of uncollected secured property taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the applicable county or counties receive(s) and retain(s) delinquent payments, penalties and interest as collected that would have been due to the local agency. The Teeter Plan, once adopted by a county, remains in effect unless the applicable county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the applicable county. A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county when delinquencies for taxes levied by that agency exceed 3%. The Teeter Plan applies to the 1% general purpose secured property tax levy. Whether or not the Teeter Plan is also applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of a local agency, varies by county.

The Board of Supervisors of the County has approved the implementation of the Teeter Plan. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency. The secured *ad valorem* property tax to be levied by the County to pay the principal of and interest on the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy. The District will receive 100% of the secured *ad valorem* property tax levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County. In the event the Board of Supervisors of the County is to order discontinuance of the Teeter Plan subsequent to its implementation, only those secured property taxes actually collected in the County would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency.

Tax Rates

The following table summarizes the total *ad valorem* property tax rates, as a percentage of assessed valuation, levied by all taxing entities in a typical tax rate area (a “TRA”) within the District during the five-year fiscal year period from fiscal years 2014-15 through 2018-19.

TYPICAL TAX RATES
Fiscal Years 2014-15 through 2018-19
Desert Sands Unified School District

	Fiscal Year <u>2014-15</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2016-17</u>	Fiscal Year <u>2017-18</u>	Fiscal Year <u>2018-19</u>
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Desert Sands Unified School District	.10984	.10915	.08599	.07251	.07418
Desert Community College District	.02325	.02087	.02036	.04030	.03978
Coachella Valley Water District	<u>.10000</u>	<u>.10000</u>	<u>.10000</u>	<u>.10000</u>	<u>.10000</u>
Total	1.23309%	1.23002%	1.20635%	1.21281%	1.21396%

⁽¹⁾ Fiscal year 2018-19 assessed valuation of TRA 75-004 is \$1,370,320,701.

Source: *California Municipal Statistics, Inc.*

Principal Taxpayers

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

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LARGEST LOCAL SECURED TAXPAYERS
Fiscal Year 2018-19
Desert Sands Unified School District

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2018-19 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
1.	Garden of Champions	Recreational	\$261,208,902	0.66%
2.	WEA Palm Desert LP	Shopping Center	156,347,145	0.39
3.	Newage Desert Springs	Hotel	154,917,600	0.39
4.	LQR Properties	Hotel	138,373,496	0.35
5.	Gardens on El Paseo	Hotel	136,149,215	0.34
6.	WVC Rancho Mirage Inc.	Timeshare/Resort	129,525,652	0.33
7.	Pru Desert Crossing	Commercial	100,197,843	0.25
8.	Bighorn Golf Club	Country Club	82,393,211	0.21
9.	Grand Champions LLC	Hotel	81,179,288	0.20
10.	KSL RLP Holdings	Hotel	78,938,821	0.20
11.	BBC Esmeralda	Hotel	72,171,706	0.18
12.	CC Cimaron LP	Apartments	66,605,500	0.17
13.	Vintage Club	Country Club	64,924,914	0.16
14.	Worldmark the Club	Hotel	64,334,856	0.16
15.	Sunrise Desert Partners	Residential Properties	59,398,331	0.15
16.	Harsch Investment Realty	Commercial	54,496,532	0.14
17.	Segovia Operations	Assisted Living	51,570,103	0.13
18.	Inland American La Quinta Pavilion	Shopping Center	48,297,698	0.12
19.	Walgreen Co.	Commercial	47,920,168	0.12
20.	Fountains Carlotta Owner NT HCI	Assisted Living	<u>47,349,660</u>	<u>0.12</u>
			\$1,896,300,641	4.78%

⁽¹⁾ The fiscal year 2018-19 local secured assessed valuation of the District is \$39,631,110,983.
Source: *California Municipal Statistics, Inc.*

Statement of Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc. effective as of November 20, 2018 for debt outstanding as of December 1, 2018. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown

in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**STATEMENT OF DIRECT AND OVERLAPPING DEBT
Desert Sands Unified School District**

2018-19 Assessed Valuation: \$40,299,857,131

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/1/18</u>
Desert Community College District	49.689%	\$154,742,730
Desert Sands Unified School District	100.000	284,730,000⁽¹⁾
Desert Sands Unified School District Community Facilities District No. 1	100.000	925,000
City of Indio Community Facilities Districts	100.000	35,267,000
1915 Act Bonds (Estimated)	Various	<u>35,803,724</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$511,468,454
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	14.376%	\$111,868,326
Riverside County Pension Obligation Bonds	14.376	38,292,632
Desert Sands Unified School District Certificates of Participation	100.000	43,550,000
City of Coachella General Fund Obligations	7.000	807,450
City of Indio Certificates of Participation and Judgment Obligations	86.303	45,464,420
City of Rancho Mirage Certificates of Participation	19.863	709,109
Coachella Valley Recreation and Park District Certificates of Participation	77.640	<u>487,137</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$241,179,074
Less: Riverside County supported obligations		<u>482,071</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$240,697,003
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		
Coachella Valley Redevelopment Agency Project Areas	8.624%	\$2,894,646
Indian Wells Redevelopment Agency Consolidated Whitewater Project Area	100.000	78,750,000
Indio Redevelopment Agency Project Areas	100.000	60,095,000
La Quinta Redevelopment Agency Project Areas	85.728	159,111,168
Palm Desert Redevelopment Agency Project Areas	58.032-93.267	212,398,574
Rancho Mirage Redevelopment Agency Project Areas	17.050-20.390	15,988,437
Riverside County Redevelopment Agency Project Area No. 4	0.581-2.739	<u>4,244,496</u>
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$533,482,321
GROSS COMBINED TOTAL DEBT		\$1,286,129,849 ⁽²⁾
NET COMBINED TOTAL DEBT		\$1,285,647,778

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$284,730,000)	0.71%
Combined Direct Debt (\$328,280,000)	0.81%
Total Direct and Overlapping Tax and Assessment Debt	1.27%
Gross Combined Total Debt	3.19%
Net Combined Total Debt.....	3.19%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$22,719,623,991):

Total Overlapping Tax Increment Debt	2.35%
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⁽¹⁾ Excludes the Bonds described herein.

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

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIII A of the California Constitution

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

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

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

Legislation Implementing Article XIII A

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

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

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

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

State-Assessed Utility 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. Under the State Constitution, such property is assessed by the SBE as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s school financing formula. See “DISTRICT FINANCIAL INFORMATION – State Funding of Education” herein.

Article XIII B of the California Constitution

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

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

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

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

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

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

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

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the State Constitution Articles XIII C and XIII D (respectively, "Article 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 State Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article 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 State Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

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

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

Proposition 26

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

Propositions 98 and 111

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

The Accountability Act also changed how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount are, instead of being returned to taxpayers, to 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 XIIB surplus. The maximum amount of excess tax revenues which can be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

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

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

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in State per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of 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.
- c. 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 State 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 State legislature and the Governor, which was expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.
- d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1)

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

Proposition 39

On November 7, 2000, State voters approved an amendment (commonly known as Proposition 39) to the State Constitution. 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 State legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education. As noted above, the State Constitution previously limited property taxes to 1% of the value of property. 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 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate per \$100,000 of taxable property value projected to be levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district, such as the District), or \$25 (for a community college district) when assessed valuation is projected to increase in accordance with Article XIII A of the State Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the State legislature and approval by the Governor. See “-Article XIII A of the California Constitution” herein.

Jarvis vs. Connell

On May 29, 2002, the State Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the State Constitution or a federal mandate is

necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the State Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Propositions 1A and Proposition 22

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

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

Proposition 55

The California Children’s Education and Health Care Protection Act of 2016 (also known as “Proposition 55”) is a constitutional amendment approved by the voters of the State on November 4, 2014. Proposition 55 extends, through 2030, the increases to personal income tax rates for high-income taxpayers that were approved as part of Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”). Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

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

Proposition 2

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

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

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

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

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

Proposition 51

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 4, 2014. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds for the new construction and modernization of K-14 facilities.

K-12 School Facilities. Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school districts lack sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the

modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for state loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, state grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

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

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

Future Initiatives

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

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds are payable from the general fund of the District. The principal of and interest on the Bonds are payable solely from the proceeds of an ad valorem property tax which is required to be levied by the County in the District in an amount sufficient for the payment thereof. See "THE BONDS – Security and Sources of Payment" herein.

State Funding of Education

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

Revenue Limit Funding. Previously, school districts operated under general purpose revenue limits established by the State Department of Education. In general, revenue limits were calculated for each school district by multiplying the ADA for such district by a base revenue limit per unit of ADA. Revenue limit calculations were subject to adjustment in accordance with a number of factors designed to provide cost of living adjustments ("COLAs") and to equalize revenues among school districts of the same type. Funding of a school district's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Beginning in fiscal year 2013-14, school districts

have been funded based on uniform system of funding grants assigned to certain grade spans. See “— Local Control Funding Formula” herein.

The following table reflects the District’s historical ADA and the revenue limit rates per unit of ADA for fiscal years 2008-09 through 2012-13.

**AVERAGE DAILY ATTENDANCE AND REVENUE LIMIT
Fiscal Years 2008-09 through 2012-13
Desert Sands Unified School District**

<u>Fiscal Year</u>	<u>Average Daily Attendance⁽¹⁾</u>	<u>Change</u>	<u>ADA Base Revenue Limit⁽²⁾</u>	<u>Deficit Revenue Limit Per ADA⁽²⁾</u>
2008-09	25,750	(726)	\$6,112.98	\$5,633.48
2009-10	25,781	31	6,374.98	4,951.86
2010-11	25,633	(148)	6,349.98	5,209.33
2011-12	25,610	(23)	6,492.98	5,155.30
2012-13	25,432	(178)	6,704.98	5,211.65

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

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

Source: *Desert Sands Unified School District*.

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

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

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

See “—State Budget Measures” herein for information on the adjusted Base Grants provided by current State budgetary legislation.

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

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

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

ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2013-14 through 2018-19
Desert Sands Unified School District

Fiscal Year	Average Daily Attendance					Enrollment	
	K-3	4-6	7-8	9-12	Total ADA	Total Enrollment⁽¹⁾	% of EL/LI Enrollment⁽¹⁾
2013-14	7,615	5,596	3,556	8,801	25,568	26,981	68.6%
2014-15	7,476	5,538	3,581	8,706	25,301	26,715	72.9
2015-16	7,413	5,572	3,436	8,777	25,198	26,468	72.2
2016-17	7,398	5,649	3,500	8,889	25,436	26,708	71.7
2017-18	7,269	5,527	3,466	8,789	25,050	26,468	71.5
2018-19 ⁽²⁾	7,288	5,302	3,503	9,026	25,119	26,378	71.5

Note: ADA numbers rounded to the nearest whole number.

⁽¹⁾ Fiscal years 2013-14 and 2014-15 reflect certified enrollment as of the fall census day (the first Wednesday in October), which is reported to the California Longitudinal Pupil Achievement Data System (“CALPADS”) in each school year and used to calculate each school district’s unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the California Department of Education. CALPADS figures generally exclude preschool and adult transitional students. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI students was expressed solely as a percentage of its total fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI enrollment was based on the two-year average of EL/LI enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI students will be based on a rolling average of such district’s EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years. Enrollment is net of charter school students.

⁽²⁾ Reflects projected ADA.

Source: *Desert Sands Unified School District.*

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

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

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

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

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

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts in meeting the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district’s LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for

amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district's strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district in identifying and implementing programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts with achieving the goals set forth in their LCAPs. On or before October 1, 2015, the State Board of Education is required to develop rubrics to assess school district performance and the need for support and intervention.

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

Other Revenue Sources

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

Federal and Local Sources. The federal government provides funding for several school district programs, including specialized programs such as the Every Student Succeeds Act, special education programs, and programs under the Educational Consolidation and Improvement Act. In addition, portions of a school district's budget can come from local sources other than unrestricted property taxes, including but not limited to interest income, leases and rentals, foundations, donations and sales of property. With respect to the District, see also "— Tax Increment Revenue," and "— Developer Fees" below.

Tax Increment Revenue. The District previously entered into agreements with a number of redevelopment agencies formed pursuant the California Community Redevelopment Law (Health and Safety Code Sections 33000 *et seq.*) (collectively, the "Redevelopment Agencies"), pursuant to which the District has historically received "pass-through" tax increment revenues. The District expects to continue receiving tax increment revenues from the Successor Agency (as defined herein) to each Redevelopment Agency. Tax-increment revenues received by the District are the principal source of funds for the payment of lease payments evidencing principal and interest with respect to the District's outstanding certificates of participation and equipment lease financings. See "DESERT SANDS UNIFIED SCHOOL

DISTRICT — District Debt Structure — Certificates of Participation” and “—Equipment Lease” herein. The table below summarizes tax increment revenues received by the District over the last five fiscal years, and a projection for fiscal year 2018-19.

TAX INCREMENT REVENUES
Fiscal Years 2013-14 through 2018-19
Desert Sands Unified School District

<u>Fiscal Year</u>	<u>Total Tax Increment Revenues Received</u>	<u>Tax Increment Revenues Allocated to Outstanding Debt⁽¹⁾</u>	<u>Unallocated Tax Increment Revenues</u>
2013-14	\$16,808,092	\$6,985,907	\$9,822,185
2014-15	17,838,410	8,146,773	6,362,933
2015-16	19,114,376	8,682,081	10,432,295
2016-17	20,238,751	9,661,147	10,577,604
2017-18	20,773,116	10,753,081	10,020,034
2018-19 ⁽²⁾	20,000,000	8,544,581	11,455,419

⁽¹⁾ A portion of the tax increment revenues received in each year is allocated to the payment of debt service associated with the District’s outstanding certificates of participation and equipment lease financings. See “DISTRICT FINANCIAL MATTERS – District Debt Structure – Certificates of Participation” and “—Equipment Lease” herein.

⁽²⁾ Projected.

Source: *Desert Sands Unified School District*.

State Dissolution of Redevelopment Agencies

On December 30, 2011, the State Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos* (“*Matosantos*”), finding ABX1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in the State ceased to exist as a matter of law on February 1, 2012. The Court in *Matosantos* also found that ABX1 27, a companion bill to ABX1 26, violated the State Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22” herein. ABX1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide.

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

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, not to exceed \$250,000 in any year, to the extent such costs have been

approved in an administrative budget; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the State Controller and the State Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the State Controller. If the State Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities, including the District. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Reform Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) (“AB 1290”), are restricted to educational facilities without offset against apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the District uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

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

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

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

Developer Fees. The District maintains a fund, separate and apart from the General Fund, to account for developer fees levied on residential and commercial development pursuant to Education Code Section 17620. Residential development is assessed a fee of \$3.79 per square foot, while commercial development is assessed a fee of \$0.61 per square foot. The following table summarizes the revenues received by the District from developer fees since 2009-10.

**DEVELOPER FEE COLLECTIONS
Fiscal Years 2009-10 through 2018-19
Desert Sands Unified School District**

<u>Fiscal Year</u>	<u>Total Collections</u>
2009-10	\$830,808
2010-11	617,994
2011-12	1,165,046
2012-13	2,733,340
2013-14	3,659,665
2014-15	2,715,782
2015-16	1,858,222
2016-17	2,995,981
2017-18	3,265,703
2018-19 ⁽¹⁾	1,500,000

⁽¹⁾ Projected.

Source: *Desert Sands Unified School District.*

Budget Process

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

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

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

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

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

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

The District has never had an adopted budget disapproved by the County superintendent of schools, and has never received a "negative" certification of an Interim Financial Report pursuant to AB 1200. The District self-designated as "qualified" its second interim financial report for fiscal year 2009-10, and all interim financial reports for fiscal years 2010-11 through 2012-13. For all reporting periods thereafter the District has designated, and the County office of education has accepted, its interim financial reports as "positive."

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

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GENERAL FUND BUDGETING
Fiscal Years 2014-15 through 2018-19
Desert Sands Unified School District

	Fiscal Year 2014-15 ⁽¹⁾		Fiscal Year 2015-16 ⁽¹⁾		Fiscal Year 2016-17 ⁽¹⁾		Fiscal Year 2017-18 ⁽¹⁾		Fiscal Year 2018-19 ⁽³⁾	
	Adopted Budget	Audited	Adopted Budget	Audited	Adopted Budget	Audited	Adopted Budget	Audited	Adopted Budget	Projected Actuals
REVENUES										
Revenue Limit /LCFF Sources	\$188,385,098	\$192,176,182	\$221,363,917	\$221,829,211	\$235,942,070	\$238,425,044	\$245,451,166	\$245,945,081	\$258,391,408	\$261,336,262
Federal Sources	14,645,781	17,029,679	15,270,988	17,797,513	15,603,046	16,582,687	16,483,210	16,601,854	16,796,308	17,521,297
Other State Sources	10,606,397	19,967,406	25,328,104	34,174,644	27,787,401	28,521,583	24,308,840	30,096,413	31,612,806	29,020,669
Other Local Sources	<u>33,082,390</u>	<u>36,170,559</u>	<u>34,206,006</u>	<u>38,477,926</u>	<u>35,809,706</u>	<u>40,044,680</u>	<u>37,971,584</u>	<u>39,883,113</u>	<u>37,059,276</u>	<u>37,463,360</u>
TOTAL REVENUES⁽²⁾	246,719,666	265,343,826	296,169,015	312,279,294	315,142,223	323,573,994	324,214,800	332,526,461	343,859,798	345,341,588
EXPENDITURES										
Certificated Salaries	113,774,502	112,074,564	118,829,765	131,058,812	135,178,473	138,495,063	142,063,362	139,367,577	146,298,122	147,508,916
Classified Salaries	37,673,417	39,337,182	40,297,667	45,202,649	45,766,988	49,524,322	48,313,784	50,097,344	49,423,653	49,697,311
Employee Benefits	55,663,895	61,172,363	61,255,601	70,401,923	79,245,590	79,959,167	88,719,748	86,767,008	94,332,287	94,765,460
Books & Supplies	7,539,015	11,924,164	22,558,958	13,991,605	15,634,149	18,525,941	13,972,816	12,940,522	14,706,305	20,980,794
Services & Other Operating Expenses	19,165,760	20,627,189	22,658,584	21,909,495	21,333,220	22,731,315	22,137,332	24,334,119	27,178,155	30,359,571
Capital Outlay	1,128,010	--	1,885,612	--	2,435,292	--	2,411,539	--	3,059,848	3,698,292
Other Outgo	1,122,842	322,718	2,043,327	542,497	2,183,139	943,999	2,043,700	1,915,828	1,764,468	1,747,930
Program/Fund Support	--	--	--	--	--	--	--	--	--	--
Debt Service	--	<u>335,157</u>	--	<u>2,542,793</u>	--	<u>2,714,382</u>	--	<u>2,745,055</u>	--	--
TOTAL EXPENDITURES⁽²⁾	236,067,441	245,793,337	269,529,514	285,649,774	301,776,851	312,894,189	319,662,281	318,167,453	336,762,838	348,758,273
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,652,225	19,550,489	26,639,501	26,629,520	13,365,372	10,679,805	4,552,519	14,359,008	7,096,960	(3,416,685)
OTHER FINANCING SOURCES/(USES)										
Transfers In	--	--	--	--	--	--	--	--	--	--
Transfers Out ⁽⁴⁾	<u>(8,781,881)</u>	<u>(10,330,921)</u>	<u>(9,148,181)</u>	<u>(11,721,352)</u>	<u>(10,709,436)</u>	<u>(12,005,915)</u>	<u>(10,705,310)</u>	<u>(8,881,311)</u>	<u>(8,595,689)</u>	<u>(8,595,689)</u>
TOTAL OTHER FINANCING SOURCES/(USES)	(8,781,881)	(10,330,921)	(9,148,181)	(11,721,352)	(10,709,436)	(12,005,915)	(10,705,310)	(8,881,311)	(8,595,689)	(8,595,689)
NET INCREASE (DECREASE) IN FUND BALANCE	1,870,344	9,219,568	17,491,320	14,908,168	2,655,936	(1,326,110)	(6,152,791)	5,477,697	(1,498,729)	(12,012,374)
Fund Balance, July 1	<u>17,946,741</u>	<u>17,946,741</u>	<u>27,166,309</u>	<u>27,166,309</u>	<u>42,074,477</u>	<u>42,074,477</u>	<u>40,748,367</u>	<u>40,748,367</u>	<u>46,226,066</u>	<u>46,226,066</u>
Fund Balance, June 30	<u>\$19,817,085</u>	<u>\$27,166,309</u>	<u>\$44,657,629</u>	<u>\$42,074,477</u>	<u>\$44,730,413</u>	<u>\$40,748,367</u>	<u>\$34,595,576</u>	<u>\$46,226,064</u>	<u>\$44,727,337</u>	<u>\$34,213,692</u>

⁽¹⁾ From the District's audited financial statements in each fiscal year. Audited beginning and ending fund balances include the District's Fund 17 (Special Reserve for Other than Capital Outlay) for consistency of presentation.

⁽²⁾ On behalf payments of \$6,041,209, \$7,913,241, and \$10,011,822 for fiscal years 2014-15, 2015-16, and 2016-17, respectively, are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17 for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the budgets.

⁽³⁾ From the District's first interim report for year 2018-19, approved by the Board on December 18, 2018. Reflects actual beginning fund balance. Fund balances include Fund 17 for consistency of presentation.

⁽⁴⁾ Operating Transfers Out primarily reflect transfers of tax increment revenues to pay debt service on the District's outstanding certificates of participation and equipment lease financings. See "DISTRICT FINANCIAL MATTERS – Other Revenue Sources – Tax Increment Revenue" herein.

Source: Desert Sands Unified School District.

Comparative Financial Statements

The District's audited financial statements for fiscal year 2017-18 are attached hereto as APPENDIX B. Audited financial statements for the District for the fiscal year ended June 30, 2018 and prior fiscal years are on file with the District and available for public inspection at the Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California 92253, telephone: (760) 777-4200. The following table reflects the District's audited general fund revenues, expenditures and fund balances for fiscal years 2013-14 through 2017-18.

AUDITED GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES Fiscal Years 2013-14 through 2017-18 Desert Sands Unified School District

	Fiscal Year 2013-14 ⁽¹⁾	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
REVENUES					
Revenue Limit/LCFF Sources	\$166,601,423	\$192,176,182	\$221,829,211	\$238,425,044	\$245,945,081
Federal Revenues	16,569,491	17,029,679	17,797,513	16,582,687	16,601,854
Other State Revenues	21,403,861	19,967,406	34,174,644	28,521,583	30,096,413
Other Local Revenues	35,444,472	36,170,559	38,477,926	40,044,680	39,883,113
Total Revenues	240,019,247	265,343,826	312,279,294	323,573,994	332,526,461
EXPENDITURES					
Current					
Instruction	145,604,902	151,404,712	176,212,743	194,751,190	195,762,205
Instruction-related activities:					
Supervision of Instruction	10,386,315	11,633,321	12,518,511	14,312,181	15,235,975
Instructional Library, media, and technology	2,664,276	2,806,388	5,295,420	4,636,647	3,427,402
School site administration	14,650,220	16,228,188	18,842,599	20,239,150	21,361,774
Pupil services:					
Home-to-school transportation	7,257,014	6,946,217	7,055,309	7,898,601	8,814,802
Food services	15,704	20,719	13,649	234,251	212,120
All other pupil services	12,650,878	13,844,364	17,274,778	18,483,438	20,072,442
General administration:					
Data processing	3,082,485	3,451,436	3,768,778	4,205,287	4,705,985
All other general administration	7,525,423	8,722,473	9,986,153	11,614,670	11,331,369
Plant services	24,511,880	26,403,178	27,852,045	29,356,277	29,578,161
Facility acquisition and construction	19,631	62,832	23,844	10,000	304,771
Ancillary services	3,698,353	3,752,402	4,169,628	4,297,354	4,545,381
Community services	5,708	12,009	21,898	26,086	12,638
Other outgo (including Enterprise services)	376,586	169,941	71,626	114,675	56,761
Enterprise services	--	--	--	--	612
Debt Service					
Principal	27,549	--	2,144,534	2,363,303	2,434,511
Interest and Other	281,270	335,157	398,259	351,079	310,544
Total Expenditures	232,728,194	245,793,337	285,649,774	312,894,189	318,167,453
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,291,053	19,550,489	26,629,520	10,679,805	14,359,008
OTHER FINANCING SOURCES/(USES)					
Operating Transfers In	1,204,703	--	--	--	--
Other Sources	--	--	--	--	--
Operating Transfers Out ⁽²⁾	(8,057,913)	(10,330,921)	(11,721,352)	(12,005,915)	(8,881,311)
Total Other Financing Sources (Uses)	(6,853,210)	(10,330,921)	(11,721,352)	(12,005,915)	(8,881,311)
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Uses	437,843	9,219,568	14,908,168	(1,326,110)	5,477,697
Fund Balance, August 1	<u>17,508,898</u>	<u>17,946,741</u>	<u>27,166,309</u>	<u>42,074,477</u>	<u>40,748,367</u>
Fund Balance, June 30	<u>\$17,946,741</u>	<u>\$27,166,309</u>	<u>\$42,074,477</u>	<u>\$40,748,367</u>	<u>\$46,226,064</u>

(1) For audited results for fiscal years 2014-15 through 2018-19 in object-oriented format, please see "DISTRICT FINANCIAL MATTERS – Budget Process – Budgeting Trends" herein.

(2) Operating Transfers Out primarily reflect transfers of tax increment revenues to pay debt service on the District's outstanding certificates of participation and equipment lease. See "DESERT SANDS UNIFIED SCHOOL DISTRICT – District Debt Structure – Certificates of Participation" and "—Equipment Lease" herein

Source: Desert Sands Unified School 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 State Education Code, is to be followed by all State school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

State Budget Measures

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

2018-19 Budget. On June 27, 2018, the Governor signed into law the State budget for fiscal year 2018-19 (the "2018-19 Budget"). The following information is drawn from the LAO's review of the 2018-19 Budget.

To protect against potential future economic recessions, the 2018-19 Budget fully funds the BSA with a total deposit of over \$4.4 billion, including a \$2.6 billion optional deposit in addition to the Constitutionally-required deposit, and adds two additional reserves to State law: the Safety Net Reserve Fund, intended to save money specifically for future expenditures of the CalWORKs and Medi-Cal programs; and the Budget Deficit Savings Account ("BDSA"), which for 2018-19 will temporarily hold the \$2.6 billion optional BSA deposit until May 2019. In May 2019, the optional BSA deposit amount will be adjusted as necessary to reflect updated estimates of revenues, at which point it will be transferred to the BSA. The projected ending balance in the BSA at the end of the 2018-19 fiscal year is expected to equal the BSA's current constitutional maximum of 10 percent of the estimated general fund revenues for fiscal year 2018-19.

For fiscal year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of \$129.8 billion and total expenditures of \$127.0 billion. The State is projected to end the 2017-18 fiscal year with total available general fund reserves of \$16.7 billion, including \$7.3 billion in the traditional general fund reserve and \$9.4 billion in the BSA. For fiscal year 2018-19, the 2018-19 Budget projects total general fund revenues of \$133.3 billion and authorizes expenditures of \$138.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$15.9 billion, including \$2.0 billion in the traditional general fund reserve, \$13.8 billion in the BSA and \$200 million in the Safety Net Reserve Fund. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

With respect to education funding, the 2018-19 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2016-17 and 2017-18, as a result of higher general fund revenues. The 2018-19 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2016-17 at \$71.6 billion, an increase of \$252 million from the prior year. The 2018-19 Budget revises the minimum funding guarantee for fiscal year 2017-18 at \$75.6 billion, reflecting an increase of \$1.1 billion from the prior year. As part of the 2017-18 increase, the State is making an additional maintenance factor payment of \$789 million, on top of a previous \$536 million payment. After making the approximately \$1.3 billion

total payment, the State will have eliminated all remaining maintenance factor for the first time since 2005-06. In both 2016-17 and 2017-18, the State is spending at the calculated minimum guarantee.

For fiscal year 2018-19, the 2018-19 Budget sets the minimum funding guarantee at \$78.4 billion, reflecting an increase of \$2.8 billion (or 3.7%) from the revised prior-year level. Fiscal year 2018-19 is projected to be a “Test 2” year, with the increase in the minimum funding guarantee attributable to a 3.67% increase in per capita personal income. With respect to K-12 education, the 2018-19 Budget sets Proposition 98 funding at \$67.9 billion, including \$47.5 billion from the State general fund, reflecting an increase of \$1.3 billion (or 2.7%) from the prior year. Per-pupil spending increases by \$579 (or 5.2%) from the prior year, up to \$11,640.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$3.7 billion in Proposition 98 funding to fully implement the LCFF, reaching the target funding targets and funding the statutory 2.71% COLA to the adjusted Base Grants for the prior year. Additionally, the 2018-19 Budget provides nearly an extra 1 percentage point increase in the LCFF rates. The adjusted Base Grants for fiscal year 2018-19 are as follows: \$8,235 for grades K-3, \$7,571 for grades 4-6, \$7,796 for grades 7-8 and \$9,269 for grades 9-12.
- *Low-Performing Students Block Grant* – \$300 million in one-time Proposition 98 funding to provide resources to local education agencies to help certain low-performing students, with funding allocated to local education agencies based on the count of students who did not meet statewide standards in spring 2018 on assessments of reading and math and who are not foster youth, low-income students, English learners, or students with disabilities.
- *State System of Support* – An increase of \$54 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.
- *California Collaborative for Educational Excellence* – \$12 million in ongoing Proposition 98 funding for the California Collaborative for Educational Excellence (the “Collaborative”) to assist county offices of education and regional lead agencies. Additionally, the 2018-19 Budget re-appropriates \$5.6 million from prior-year one-time Proposition 98 appropriations for use by the Collaborative for additional statewide trainings and technical assistance.
- *Special Education Local Plan Area (SELPA) Technical Assistance* – \$10 million in Proposition 98 funding for up to ten SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance within the Statewide system of support.
- *Career Technical Education (CTE)* – \$164 million in ongoing Proposition 98 funding to create a new K-12 CTE program funded through the Strong Workforce Program, which is administrated by California Community College Chancellor’s Office, in consultation with the State Department of Education, as well as \$150 million in ongoing Proposition 98 funding to make permanent the State’s Career Technical Education Incentive Grant Program.
- *One-Time Discretionary Funding* – An increase of \$1.1 billion in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at local discretion. Similar to features included in prior State budgets, these funds would offset any applicable mandate reimbursement claims for these entities.

- *Special Education, Bilingual, and STEM Teachers* – \$75 million in one-time Proposition 98 funding to start new or expand existing teacher residency programs with \$50 million earmarked for special education teachers and \$25 million earmarked for bilingual and STEM teachers; and \$50 million in one-time Proposition 98 funding to provide one-time competitive grants to local educational agencies to fund new or existing local efforts to recruit and retain special education teachers.
- *Classified School Employee Summer Assistance Program* – \$50 million one-time Proposition 98 funding to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the 2019-20 school year, supplemented by State funding, and paid during the summer recess period.
- *Classified School Employee Professional Development Block Grant Program* – \$50 million one-time Proposition 98 funding for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.
- *Federal Funds for Academic Enrichment* – \$165 million one-time federal ESSA Title IV funding for academic enrichment, with \$121 million of such funds distributed to local education agencies based on their share of existing Title I funding, and the remainder distributed competitively.
- *Charter School Facility Grant Program* – \$21 million one-time and \$25 million ongoing Proposition 98 funding to reflect increases in programmatic costs.
- *Kids Code After School Program* – \$15 million one-time Proposition 98 funding to fund the inclusion of computer coding in after-school curriculum.
- *Fiscal Crisis and Management Assistance Team (FCMAT)* – \$972,000 Proposition 98 funding to allow FCMAT provide additional assistance for fiscally distressed school districts and provide additional training for county offices of education regarding fiscal oversight of school districts.
- *Kindergarten Facilities* – \$100 million one-time non-Proposition 98 funding to help school districts cover facility costs associated with converting their part-day kindergarten programs into full-day programs.
- *Proposition 51* – a total allocation of \$594 million in Proposition 51 bond funds for K-12 school facility projects.

For additional information regarding the 2018-19 Budget, see the State Department of Finance website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov. However, the information presented on such websites is not incorporated herein by reference.

Proposed 2019-20 Budget. On January 10, 2019, the Governor released his proposed State budget for fiscal year 2019-20 (the "Proposed 2019-20 Budget"). The following information is drawn from the State Department of Finance's summary, and the LAO's review of, the Proposed 2019-20 Budget.

For fiscal year 2018-19, the Proposed 2019-20 Budget projects total general fund revenues and transfers of \$136.9 billion and total expenditures of \$144.1 billion. The State is projected to end the

2018-19 fiscal year with total available general fund reserves of \$18.3 billion, including \$3.9 billion in the traditional general fund reserve, \$13.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund. For fiscal year 2019-20, the Proposed 2019-20 Budget projects total general fund revenues and transfers of \$142.6 billion and authorizes expenditures of \$144.2 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.5 billion, including \$2.3 billion in the traditional general fund reserve, \$15.3 billion in the BSA and \$900 million in the Safety Net Reserve Fund. The Governor notes that additional deposits to the BSA are premised on a recent opinion by the California Office of Legislative Counsel which concluded that supplemental payments to the BSA made in prior fiscal years do not count towards calculating its constitutional maximum of 10%. Under the Governor's new estimates, mandatory deposits to the BSA represent only 8.1% of State general fund taxes. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

With respect to education funding, the Proposed 2019-20 Budget revises the Proposition 98 minimum funding guarantees for both fiscal years 2017-18 and 2018-19, as a result of lower-than-anticipated ADA and a year-to-year decline in State general fund revenue growth. The Proposed 2019-20 Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2017-18 at \$75.5 billion, a decrease of \$120.1 million from the prior year. The Proposed 2019-20 Budget revises the minimum funding guarantee for fiscal year 2018-19 at \$77.9 billion, reflecting a decrease of \$525.7 million from the prior year. Notwithstanding these decreases, the Proposed 2019-20 Budget maintains level funding for K-14 education in these years by maintaining a \$44 million overappropriation to the fiscal year 2017-18 minimum guarantee and using settle-up payments to offset otherwise unfunded obligations in fiscal year 2018-19.

For fiscal year 2019-20, the Proposed 2019-20 Budget sets the minimum funding guarantee at \$80.7 billion, reflecting an increase of \$2.8 billion (or 3.6%) from the revised prior-year level. Fiscal year 2019-20 is projected to be a "Test 3" year. With respect to K-12 education, ongoing per-pupil spending is set at \$12,003, reflecting an increase of \$435 from the prior year.

Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$2 billion in Proposition 98 funding for the LCFF, reflecting a 3.46% COLA, and bringing total LFCC funding to \$63 billion.
- *Categorical Programs* – An increase of \$187 million in Proposition 98 funding to support a 3.46% COLA for categorical programs that remain outside the LCFF.
- *Pension Costs* – A \$3 billion, one-time payment from non-Proposition 98 funds to CalSTRS, to reduce long-term liabilities for K-14 school districts. Of this amount, \$700 million would be provided to buy down employer contribution rates in fiscal years 2019-20 and 2020-21. The remaining \$2.3 billion would be paid towards employers' long-term unfunded liability.
- *State System of Support* – An increase of \$20.2 million in Proposition 98 funding for county offices of education to provide technical assistance to low-performing local educational agencies.
- *Special Education* – \$577 million in Proposition 98 funding (of which \$186 million is one-time) to school districts based on their unduplicated counts of low-income, English learner and disabled students. These funds may be used for either (i) special education services for students with disabilities, or (ii) early intervention programs for students are not yet receiving special education services.

- *Preschool* – \$125 million in non-Proposition 98, ongoing funding to provide 10,000 full-day preschool slots for children from low income families. The Proposed 2019-20 Budget also provides for an increase of \$26.8 million in Proposition 98 funding to reflect the full-year cost of full-day preschool slots implemented during the prior fiscal year.
- *Early Education* – An increase of \$750 million in one-time non-Proposition 98 funding to create more full-day Kindergarten programs. The funds are primarily intended for constructing new or retrofitting existing school facilities needed to operate longer-day programs. The Proposed 2019-20 Budget also includes \$500 million for improvements to early education (including \$245 million for facilities, \$245 million for the child care workforce, and \$10 million to improve access and quality).
- *County Offices of Education* – An increase of \$9 million in Proposition 98 funding for county offices of education, reflecting a 3.46% COLA and ADA changes applicable to the LCFF.
- *Proposition 51* – a total allocation of \$1.5 billion in Proposition 51 bond funds for K-12 school facility projects.

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

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

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DESERT SANDS UNIFIED SCHOOL DISTRICT

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

Introduction

The Desert Sands Unified School District is a unified school district providing elementary and secondary levels of education under a single Board of Education and centralized administration. Established in 1966, the District currently operates 18 elementary schools, one charter elementary school, six middle schools, one charter middle school, four comprehensive high schools, two continuation high schools, and one Alternative Education School. The District encompasses approximately 752 square miles of the southern part of the County, serving the cities of Indio, Coachella, La Quinta, Indian Wells, Palm Desert, Rancho Mirage and the community of Bermuda Dunes. For fiscal year 2018-19, taxable property within the District has an assessed valuation of \$40,299,857,131 and the District's ADA is projected to be 25,119 students.

Administration

The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions.

Current members of the Board, together with their offices and the dates their terms expire, are listed below:

BOARD OF EDUCATION Desert Sands Unified School District

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Wendy Jonathan	President	December 2020
Linda Porras	Vice President/Clerk	December 2020
Ana M. Conover	Member	December 2022
Donald B. Griffith	Member	December 2022
Gary Tomak	Member	December 2020

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board.

Scott Bailey, Superintendent. Mr. Scott Bailey was appointed to serve as Superintendent of the District effective April 2017. Immediately prior thereto, he was the Chief Academic Officer at the Washoe County School District. Mr. Bailey has also previously held the positions of Director of School Performance, Principal, Assistant Principal, Headmaster, and Teacher. Mr. Bailey received his Master of Science in Educational Leadership and Administration, Supervision and Evaluation from Pittsburg State University, and Bachelor's Degree from Pittsburg State University.

Jordan Aquino, Assistant Superintendent, Business Services. Mr. Jordan Aquino was appointed to serve as Assistant Superintendent of Business Services of the District effective October 2018. He has

previously held the positions of Director of Fiscal Services, Chief Financial Officer, Consultant, and Assistant Superintendent of Business Services. Mr. Aquino received his MBA from California State University, Bakersfield and his Bachelor of Arts degree in Business Economics and Professional Writing minor from the University of California, Santa Barbara. He also has earned Chief Business Official certifications through the Fiscal Crisis and Management Assistance Team Chief Business Officials Mentor Project and the California Association of School Business Officials program.

District Growth

The following table reflects the ADA and enrollment for the District for the last five years, and a projection for fiscal year 2018-19.

AVERAGE DAILY ATTENDANCE AND ENROLLMENT
Fiscal Years 2013-14 through 2018-19
Desert Sands Unified School District

<u>Fiscal Year</u>	<u>Average Daily Attendance</u> ⁽¹⁾	<u>Enrollment</u> ⁽²⁾	<u>Change in Enrollment</u>
2013-14	25,568	26,981	--
2014-15	25,301	26,715	(266)
2015-16	25,198	26,468	(247)
2016-17	25,436	26,708	240
2017-18	25,050	26,468	(240)
2018-19 ⁽³⁾	25,119	26,378	(90)

⁽¹⁾ Except for fiscal year 2018-19, reflects P-2 ADA, and is net of charter school students.

⁽²⁾ Certified enrollment is as of the fall census day (the first Wednesday in October) reported to CALPADS. See also "DISTRICT FINANCIAL MATTERS – State Funding of Education – Local Control Funding Formula" herein. Enrollment is net of charter school students.

⁽³⁾ Budgeted.

Source: *Desert Sands Unified School District.*

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the State Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education, or the State Board of Education.

A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to: (i) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; (ii) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability; and (iii) provide competition within the public school system to stimulate improvements in all public schools.

The District has certain fiscal oversight and other responsibilities with respect to both independent and affiliated charter schools established within its boundaries. However, independent charter schools receive funding directly from the State, and such funding would not be reported in the District's audited financial statements. Affiliated charter schools receive their funding from the District, and would be reflected in the District's audited financial statements.

The District has approved two petitions to establish charter schools within the District: Washington Charter School, which opened in the 1994-95 fiscal year, and Palm Desert Middle Charter

School, which opened in July 2008 (collectively, the “Charter Schools”). Both of the Charter Schools are affiliated charter schools. Approximately 2,254 students are currently enrolled in the Charter Schools. Under the LCFF, charter schools are funded on the basis of target base funding grants per unit of ADA substantially similar to those of school districts. See “DISTRICT FINANCIAL INFORMATION – State Funding of Education – Local Control Funding Formula” herein.

The District can make no representations as to whether additional charter schools will be established within the boundaries of the District, the amount of any future transfers of students from the District to charters schools, and the corresponding financing impact on the District.

Labor Relations

District employees, except management, confidential and some part-time employees, are represented by two bargaining units as noted in the following table:

**LABOR RELATIONS
Desert Sands Unified School District**

<u>Labor Organization</u>	<u>Number of Employees in Organization</u>	<u>Contract Expiration Date</u>
Desert Sands Teachers’ Association (DSTA)	1,424	June 30, 2020
California School Employees Association (CSEA)	1,154	June 30, 2021

Source: Desert Sands Unified School District.

State Retirement Programs

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

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

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

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

**MEMBER CONTRIBUTION RATES
STRS (Defined Benefit Program)**

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

Source: AB 1469.

Pursuant to the Reform Act (defined below), the contribution rates for members hired after the Implementation Date (defined below) will be adjusted if the normal cost increases by more than 1% since the last time the member contribution was set. The contribution rate for employees hired after the Implementation Date (defined below) increased from 9.205% of creditable compensation for fiscal year commencing July 1, 2017 to 10.205% of creditable compensation effective July 1, 2018.

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

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

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

Source: AB 1469.

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

service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

The District's contributions to STRS were \$10,338,352 for fiscal year 2014-15, \$14,581,647 for fiscal year 2015-16, \$17,837,783 for fiscal year 2016-17 and \$20,785,905 for fiscal year 2017-18. The District has projected a contribution of \$23,470,718 to STRS for fiscal year 2018-19.

The State also contributes to STRS, currently in an amount equal to 7.328% of teacher payroll for fiscal year 2018-19. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990.

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

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

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

The District's contributions to PERS were \$4,931,016 for fiscal year 2014-15, \$5,676,752 for fiscal year 2015-16, \$7,045,785 for fiscal year 2016-17 and \$8,117,506 for fiscal year 2017-18. The District has projected a contribution of \$9,528,803 to PERS for fiscal year 2018-19.

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

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

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

FUNDED STATUS
STRS (Defined Benefit Program) and PERS (Schools Pool)
(Dollar Amounts in Millions)⁽¹⁾
Fiscal Years 2010-11 through 2016-17

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

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

⁽¹⁾ Amounts may not add due to rounding.

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

⁽³⁾ Reflects actuarial value of assets.

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

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

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect member’s increasing life expectancies and current

economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the “2016 STRS Actuarial Valuation”). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 STRS Actuarial Valuation and 7.00% for the June 30, 2017 actuarial evaluation (the “2017 STRS Actuarial Valuation”), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%. The 2017 STRS Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on the change in actuarial assumptions adopted by the STRS Board, including the adoption of a 7% investment rate of return, recent investment experience and the insufficiency of the contributions received in fiscal year 2016-17 to cover interest on the unfunded actuarial obligation, the 2017 STRS Actuarial Valuation reports that the unfunded actuarial obligation increased by \$10.6 billion since the June 30, 2016 actuarial valuation and the funded ratio decreased by 1.1% to 62.6% over such time period. As a result, it is currently projected that there will be a need for higher contributions from the State, employers and members in the future to reach full funding by 2046.

According to the 2017 STRS Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with a projected ending funded ratio in fiscal year ending June 30, 2046 of 99.6%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

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

On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over a three year phase-in period in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect July 1, 2017 for the State and will go into effect July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will also see their contribution rates rise.

On April 17, 2013, the PERS Board approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates,

including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented with respect the State, K-14 school districts and all other public agencies in fiscal year 2015-16.

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

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

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

The Schools Pool Actuarial Valuation as of June 30, 2017, reported that, based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution rate for 2019-20 is projected to be 20.7%, with annual increases thereafter, resulting in a projected 25.5% employer contribution rate for fiscal year 2025-26.

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

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired

after January 1, 2013 (the “Implementation Date”). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

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

As of June 30, 2018, the District reported its share of the net pension liabilities for the STRS and PERS systems to be \$242,655,747 and \$94,976,673, respectively. See also “APPENDIX B – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 13” attached hereto

Supplemental Employee Retirement Plan

The District has adopted a supplemental early retirement plan (“SERP”) whereby certain eligible employees are provided an annuity to supplement the retirement benefits such employees are entitled to receive through the CalSTRS or CalPERS retirement systems. The District has entered into an agreement

with the Public Agency Retirement System (PARS), whereby the District pays contributions to the PARS administrator, who then provides supplemental income to eligible employees. Annuities have been purchased for 184 employees, and are paid over a five-year period.

The accumulated future liability for the District for the SERP, as of June 30, 2018, amounted to \$204,515, and future payments as of June 30, 2018 are as shown in the following table.

Year Ending	Payment
<u>June 30,</u>	
2019	\$85,055
2020	58,220
2021	30,621
2022	<u>30,619</u>
Total	<u>\$204,515</u>

Other Post-Employment Benefits

Program Benefits. The District operates a defined benefit health care program (the “Program”) that provides medical insurance benefits to eligible retirees and their spouses. The benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the Program. The following is a description of the Program:

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical only	Medical only	Medical only
Duration of benefits	To age 65	To age 65	To age 65
Required service	8 years*	8 years*	8 years*
Minimum age	60**	55**	50**
Dependent coverage	Yes	Yes	Yes
District contribution %	100%	100%	100%
District cap	Bargaining Unit Cap***	Bargaining Unit Cap	Classified Bargaining Unit Cap

* While only 8 years of District service is required, the retiree must have 15 years of creditable service in the retirement system prior to retirement.

** Minimum age for certificated hired before 7/1/06 of 55; minimum age of 50 for classified hired before 7/1/06.

*** Plus a supplement from the difference between total cap minus actual premium (if any).

Membership of the Program, as of June 30, 2018, consisted of 198 retirees and beneficiaries currently receiving benefits and 2,393 active Program members.

Funding Policy. The contribution requirements of employees and the District are established and amended by the District, its bargaining units, and unrepresented groups on an annual basis. The District’s contribution is currently based on a “pay-as-you-go” basis to cover the cost of benefits for current retirees. For fiscal year 2016-17, the District contributed \$2,442,335 to the Program, all of which was used for premiums. For fiscal year 2017-18, the District contributed \$3,486,584 to the Program, all of which was used for premiums. The District has projected its contribution for fiscal year 2018-19 to be \$3,486,584.

Accrued Liability. The District has implemented *Governmental Accounting Standards Board Statement #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (“GASB Statement No. 74”) and *Governmental Accounting Standards Board Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB Statement No. 75”),

pursuant to which the District has commissioned and received an actuarial study of its liability with respect to the Program benefits. GASB Statements No. 74 and No. 75 (discussed below) require biennial actuarial valuations for all plans. The most recent actuarial study was dated September 25, 2018 (the “Study”), and had a valuation date of June 30, 2018. The Study concluded that, as of a June 30, 2018 measurement date, the Total OPEB Liability (the “TOL”) with respect to such Program benefits, was \$79,633,863. Because the District does not maintain a qualifying irrevocable trust, the District’s Net OPEB Liability (the “NOL”) is equal to the TOL.

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

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

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

GASB Statement No. 74 has an effective date for plan fiscal years beginning after June 15, 2016 and GASB Statement No. 75 is effective for employer fiscal years beginning after June 15, 2017. The District has recognized GASB Statement No. 74 and GASB Statement No. 75 in their financial statements for fiscal year 2017-18. See “APPENDIX B – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT” attached hereto. The full extent of the effect of the new standards on the District is not known at this time.

Risk Management

The District is exposed to various risks related to torts, theft, damage and destruction of assets, errors and omissions, injuries to employees, life and health of employees, and natural disasters. These risks are addressed through a combination of commercial insurance, self-insurance (for workers’

compensation, life insurance and accidental death and dismemberment coverage (“AD&D”), and participation in certain public entity risk pools, as described below.

The District is a member of the Riverside Schools’ Insurance Authority (“RSIA”) and the Riverside County Employer/Employee Partnership for Benefits (“REEP”) joint powers authorities (each a “JPA”) for purposes of property and liability insurance coverage, and for life insurance and AD&D coverage, respectively, and the California’s Valued Trust (the “Trust”) for purposes of health and welfare coverage. The District pays an annual premium to RSIA and the Trust for its property and health and welfare coverage, respectively; the employees may elect to pay for life insurance or AD&D coverage to REEP. The JPAs are each governed by a board consisting of representatives from member districts. Each governing board controls the operations of its JPA, including selection of management approval of operating budgets, independent of any influence by the member districts beyond the District’s representation on the governing boards. The Trust is governed by a board of trustees consisting of management and labor representatives appointed by their respective constituents. The trustees control the operations of the trust including management approval of operating budgets, independent of any influence by the member districts. Member districts share surpluses and deficits proportionally to their participation in the JPAs and the Trust. The relationships between the District, the JPAs and the Trust are such that none are considered component units of the District for financial reporting purposes.

There are a number of claims pending against the District. In the opinion of the District, the related liability, if any, stemming from these claims will not materially affect the financial condition of the District. Settled claims have not exceeded available insurance coverages in the past three fiscal years. Based upon prior claims experience, the District believes that it has adequate insurance coverage. See also “APPENDIX B – 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT – Note 12” and “—Note 15” herein.

District Debt Structure

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

OUTSTANDING LONG TERM DEBT⁽¹⁾
As of June 30, 2018
Desert Sands Unified School District

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions and</u> <u>Adjustments</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
General obligation bonds	\$316,115,000	--	\$21,220,000	\$294,895,000
Premium on Issuance	36,548,933	--	2,766,919	33,782,014
Certificates of Participation	49,805,000	--	6,255,000	43,550,000
Premium on Issuance	4,547,002	--	795,588	3,751,414
Capital leases	7,529,120	--	2,434,511	5,094,609
Supplemental Early Retirement Program	136,466	\$153,104	85,055	204,515
Accumulated Vacation (net)	952,468	119,983	--	1,072,451
Net OPEB Liability	77,101,515	4,777,991	247,142	81,632,364
Claims Liability ⁽²⁾	<u>11,276,691</u>	<u>2,292,015</u>	--	<u>13,568,706</u>
TOTAL	<u>\$504,012,195</u>	<u>\$7,343,093</u>	<u>\$33,804,215</u>	<u>\$477,551,073</u>

⁽¹⁾ Does not include special assessment debt associated with the District CFD Special Tax Bonds (defined herein), pursuant to GASB statement No. 6. See “—Community Facilities District Bonds” herein.

⁽²⁾ Reflects liabilities associated with certain workers’ compensation claims, including an amount for claims that have been incurred but not reported (“IBNR”).

Source: *Desert Sands Unified School District.*

Community Facilities District Bonds. The District has formed a community facilities improvement district (“CFD”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code) for the purpose of raising funds for the construction and acquisition of various public school improvements within the CFD. On June 22, 2000, the CFD issued \$2,285,00 of its special tax bonds (“Special Tax Bonds”) payable from a special tax (the “Special Tax”) to be levied on all taxable parcels within the CFD, pursuant to a rate and method of apportionment of special taxes (the “RMA”) approved by registered voters of the CFD. The Special Tax Bonds are special obligations of the CFD, payable solely from the net proceeds of the Special Tax levied within the CFD. The District’s general fund is not a source of payment for the Special Tax Bonds. The CFD has covenanted to levy in each year an amount of Special Taxes at least equal to (i) any amounts necessary to fund specified administration costs of the CFD, and (ii) 110% of the debt service coming due on the Special Tax Bonds in such year. The Special Tax Bonds mature on September 1, 2025, and are currently outstanding in a principal amount equal to \$925,000.

The following table displays the annual debt service requirements for the Special Tax Bonds (assuming no optional redemptions).

**ANNUAL DEBT SERVICE
SPECIAL TAX BONDS⁽¹⁾
Community Facilities District No. 1 of the Desert Sands Unified School District**

Period Ending <u>September 1</u>	Annual <u>Debt Service</u>
2019	\$ 173,593.76
2020	176,031.26
2021	167,781.26
2022	169,531.26
2023	170,593.76
2024	170,968.76
2025	<u>165,656.26</u>
Total	\$1,194,156.32

Source: Desert Sands Unified School District.

Equipment Lease. On May 23, 2014, the District executed and delivered a Master Equipment Lease-Purchase Agreement (the “Equipment Lease”) pursuant to which the District is financing the acquisition of certain solar equipment for installation at various school sites. The Equipment Lease is payable from semi-annual rent payments to be made thereunder, and for which the District is required to appropriate sufficient funds in each fiscal year. Rent payments are payable from any legally available source, and are expected to be paid principally from Tax-Increment Revenue received from certain Successor Agencies. See “DISTRICT FINANCIAL MATTERS – Other Revenue Sources – Tax Increment Revenue” herein. Rent payments payable under the Equipment Lease evidence principal in the amount of \$5,094,609 as of June 30, 2018, with interest with respect thereto accruing at a rate of 1.70%.

The following table shows the lease payment schedule under the Equipment Lease.

Fiscal <u>Year</u>	Lease <u>Payment</u>
2019	\$2,597,635
2020	2,624,596
Less Interest	<u>(127,622)</u>
Total	\$5,094,609

Certificates of Participation. On December 13, 2012, the District executed and delivered its 2012 Refunding Certificates of Participation (the “2012 Certificates”), evidencing principal in the amount of \$13,000,000, to refund certain other then-outstanding certificates of participation. On June 25, 2014, the District executed and delivered its Certificates of Participation (2014 Financing Project) (the “2014 Certificates”), evidencing principal in the amount of \$18,895,000, to finance additional construction at Indio High School. On June 24, 2015, the District executed and delivered its 2015 Refunding Certificates of Participation (the “2015 Certificates”), evidencing principal in the amount of \$25,340,000, to refund certain other then-outstanding certificates of participation.

Each of the foregoing certificates of participation issuances evidences fractional and undivided interests in the right to receive certain lease payments, and any prepayments thereof, to be made by the District pursuant to lease-purchase agreements (each “Lease”) by and between the District and the Desert Sands Unified School District School Building Corporation. Such lease payments are designed to pay, when due, the principal and interest with respect to each such issuance of certificates of participation. The District has covenanted in each Lease that it will take such action as may be necessary to include such lease payments and other payments due under such Lease in its annual budgets and to make the necessary annual appropriations therefor.

The following table summarizes future annual lease payment requirements of the District with respect its outstanding certificates of participation (and assuming no extraordinary prepayments or future optional prepayments).

ANNUAL LEASE PAYMENTS – CERTIFICATES OF PARTICIPATION
Desert Sands Unified School District

Year Ending March 1	2012 Certificates	2014 Certificates	2015 Certificates	Total Annual Lease Payments
2019	\$1,979,500.00	\$1,712,631.26	\$4,852,450.00	\$8,544,581.26
2020	1,989,750.00	1,713,631.26	4,856,250.00	8,559,631.26
2021		1,711,381.26	4,856,000.00	6,567,381.26
2022	--	1,711,381.26	4,856,250.00	6,567,631.26
2023	--	1,711,981.26	4,856,500.00	6,568,481.26
2024	--	1,716,231.26	4,856,250.00	6,572,481.26
2025	--	1,711,981.26	--	1,711,981.26
2026	--	1,713,981.26	--	1,713,981.26
2027	--	1,713,681.26	--	1,713,681.26
2028	--	1,715,087.50	--	1,715,087.50
2029	--	<u>1,712,925.00</u>	--	<u>1,712,925.00</u>
	<u>\$3,969,250.00</u>	<u>\$18,844,893.84</u>	<u>\$29,133,700.00</u>	<u>\$51,947,843.84</u>

Source: Desert Sands Unified School District.

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General Obligation Bonds. On November 6, 2001, the voters of the District approved the issuance of \$450,000,000 of general obligation bonds of the District (the “2001 Authorization”), payable from *ad valorem* taxes levied on taxable property within the District. The District has issued four series of bonds comprising the entirety of the 2001 Authorization, as well as three series of refunding bonds to refund outstanding portions thereof – the 2013 General Obligation Refunding Bonds, Series A (Tax-Exempt) and the 2013 General Obligation Refunding Bonds, Series B (Federally Taxable) (together, the “2013 Refunding Bonds”), as well as the 2015 General Obligation Refunding Bonds (the “2015 Refunding Bonds”) and the 2016 General Obligation Refunding Bonds (the “2016 Refunding Bonds”). The only bonds currently outstanding from the 2001 Authorization other than the refunding bonds described above are the District’s Election of 2001, Series 2012 Bonds (“Series 2012 Bonds”).

On November 4, 2014, the voters of the District approved the issuance of \$225,000,000 of general obligation bonds of the District (the “2014 Authorization”). On July 22, 2015, the County issued the District’s Election of 2014, Series 2015 Bonds (“Series 2015 Bonds”) in the aggregate principal amount of \$75,000,000. The Bonds represent the second series of bonds issued pursuant to the 2014 Authorization. Following the issuance of the Bonds, \$50,000,000* of the 2014 Authorization will remain unissued.

The following table summarizes the District’s prior bond issuances, not including the Bonds.

General Obligation Bonded Debt			
Issuance	Initial Principal Amount	Principal Outstanding⁽¹⁾	Date of Delivery
Series 2012 Bonds	\$74,000,000.00	\$65,250,000.00	December 13, 2012
2013 Refunding Bonds	62,255,000.00	58,855,000.00	June 5, 2013
2015 Refunding Bonds	84,640,000.00	82,530,000.00	July 8, 2015
Series 2015 Bonds	75,000,000.00	58,860,000.00	July 8, 2015
2016 Refunding Bonds	21,940,000.00	19,580,000.00	April 20, 2016

⁽¹⁾ As of December 1, 2018.

Source: *Desert Sands Unified School District*.

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* Preliminary, subject to change.

The following table displays the annual debt service requirements of the District for all of its outstanding general obligation bonds (and assuming no further optional redemptions).

**ANNUAL DEBT SERVICE
GENERAL OBLIGATION BONDS⁽¹⁾
Desert Sands Unified School District**

Period Ending Aug. 1	Series 2012 Bonds	2013 Refunding Bonds⁽²⁾	Series 2015 Bonds	2015 Refunding Bonds	2016 Refunding Bonds	The Bonds	Total Annual Debt Service
2019	\$6,357,400.00	\$4,744,014.60	\$3,996,775.00	\$9,550,950.00	\$1,955,900.00		
2020	6,354,000.00	6,269,063.60	3,994,375.00	9,750,950.00	860,050.00		
2021	6,354,400.00	6,531,813.60	3,997,875.00	9,961,950.00	860,050.00		
2022	6,353,200.00	6,808,006.00	3,998,125.00	10,171,950.00	860,050.00		
2023	6,360,200.00	7,090,000.00	3,995,125.00	10,384,700.00	860,050.00		
2024	6,354,300.00	7,383,250.00	3,998,875.00	10,603,700.00	860,050.00		
2025	6,353,100.00	5,363,500.00	3,998,875.00	10,832,200.00	2,840,050.00		
2026	6,354,300.00	5,556,250.00	3,995,125.00	11,058,200.00	2,941,050.00		
2027	6,352,500.00	5,755,250.00	3,997,625.00	11,290,200.00	3,047,050.00		
2028	6,356,250.00	5,964,250.00	3,996,900.00	11,528,400.00	3,147,300.00		
2029	6,354,250.00	6,181,750.00	3,995,100.00	--	3,256,550.00		
2030	6,354,800.00	6,406,250.00	3,996,850.00	--	3,373,800.00		
2031	6,355,100.00	6,641,250.00	3,998,850.00	--	3,489,200.00		
2032	--	--	3,995,850.00	--	--		
2033	--	--	3,997,850.00	--	--		
2034	--	--	3,994,350.00	--	--		
2035	--	--	3,995,350.00	--	--		
2036	--	--	3,995,350.00	--	--		
2037	--	--	3,994,100.00	--	--		
2038	--	--	3,996,350.00	--	--		
2039	--	--	3,996,600.00	--	--		
2040	--	--	3,994,600.00	--	--		
2041	--	--	3,995,100.00	--	--		
2042	--	--	3,997,600.00	--	--		
2043	--	--	3,996,600.00	--	--		
2044	--	--	3,998,800.00	--	--		
Total	<u>\$82,613,800.00</u>	<u>\$80,694,647.80</u>	<u>\$103,908,975.00</u>	<u>\$105,133,200.00</u>	<u>\$28,351,150.00</u>		

⁽¹⁾ The 2013 Refunding Bonds and the 2016 Refunding Bonds mature on June 1 of the years indicated; interest payment dates on such bonds are made semiannually on June 1 and December 1. Interest on all other bonds is payable on February 1 and August 1 of each, year, with principal maturing on August 1 of each year as indicated.

⁽²⁾ Reflects aggregate debt service on the 2013 General Obligation Refunding Bonds, Series A (Tax-Exempt) and 2012 General Obligation Refunding Bonds, Series B (Federally Taxable).
Source: Desert Sands Unified School District.

TAX MATTERS

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

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

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

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

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

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

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

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

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

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

LIMITATION ON REMEDIES; BANKRUPTCY

General

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

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the automatic stay provisions of Bankruptcy Code Sections 362 and 922 generally would prohibit creditors from taking any action to collect amounts due from the District or to enforce any obligation of the District related to such amounts due, without consent of the District or authorization of the bankruptcy court

(although such stays would not operate to block creditor application of pledged special revenues to payment of indebtedness secured by such revenues). In addition, as part of its plan of adjustment in a chapter 9 bankruptcy case, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

Statutory Lien

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

Special Revenues

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

Possession of Tax Revenues; Remedies

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

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

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

LEGAL MATTERS

Legality for Investment in California

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

Information Reporting Requirements

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date of this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

Continuing Disclosure

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

Prior Undertakings. Within the past five years, the District failed to file in a timely manner certain portions of the Annual Report for fiscal year 2012-13, as required by its prior undertakings pursuant to the Rule. The District also failed to file in a timely manner certain notices of material events, as required by such prior undertakings. Such Annual Reports and event notices have been filed.

Absence of Material Litigation

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

Financial Statements

The financial statements with required supplemental information for the year ended June 30, 2018, the independent auditor's report of the District, and the related statements of activities and of cash flows for the year then ended, and the report of Vavrinek, Trine, Day & Co., LLP (the "Auditor") dated November 2, 2018, are included in this Official Statement as APPENDIX B. In connection with the inclusion herein, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

Legal Opinion

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

MISCELLANEOUS

Ratings

The Bonds have been assigned ratings of "Aa2" by Moody's and "AA" by S&P. The ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich, New York, NY 10007 and Standard & Poor's Ratings Services, 55 Water Street, 45th Floor, New York, NY 10041. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agencies, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District which is not included in this Official Statement), and on independent investigations, studies and assumptions by such rating agencies.

The District has covenanted in a Continuing Disclosure Certificate to file on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA") notices of any ratings changes on the Bonds. See "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE FOR THE BONDS" attached hereto. Notwithstanding such covenant, information relating to ratings changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Bonds are directed to the ratings agencies and their

respective websites and official media outlets for the most current ratings changes with respect to the Bonds after the initial issuance of the Bonds.

Underwriting

The Bonds are being purchased by RBC Capital Markets, LLC (the “Underwriter”) for a purchase price of \$_____ (which is equal to the principal amount of the Bonds of \$_____, plus original issue premium of \$_____, less an underwriting discount of \$_____).

The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by bond counsel and certain other conditions. The initial offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than such initial offering prices.

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

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

The Underwriter made a voluntary contribution to the committee that was formed to support the election authorizing the Bonds.

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Additional Information

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

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

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____
Scott Bailey
Superintendent

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APPENDIX A

FORM OF OPINION OF BOND COUNSEL FOR THE BONDS

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

_____, 2019

Board of Education
Desert Sands Unified School District

Members of the Board of Education:

We have examined a certified copy of the record of the proceedings relative to the issuance and sale of \$_____ Desert Sands Unified School District Election of 2014 General Obligation Bonds, Series 2019 (the "Bonds"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

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

1. Such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code of the State of California (the "Act"), commencing with Section 53506 *et seq.*, a vote of 55% of the qualified electors of the Desert Sands Unified School District (the "District") voting at an election held on November 4, 2014, and a resolution of the Board of Trustees of the District (the "Resolution").
2. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* property taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.
3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.
4. Interest on the Bonds is exempt from State of California personal income tax.
5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the

Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

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

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

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

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

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

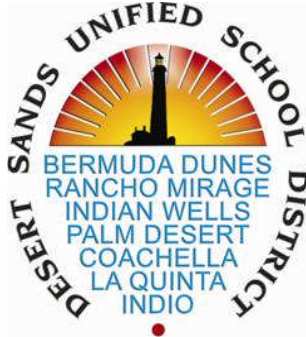
Respectfully submitted,

Stradling Yocca Carlson & Rauth

APPENDIX B

THE 2017-18 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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**DESERT SANDS
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

DESERT SANDS UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Desert Sands Unified School District
La Quinta, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Desert Sands Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Desert Sands Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

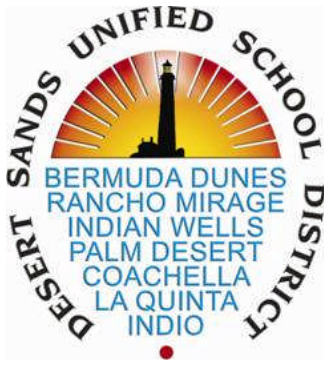
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of the Desert Sands Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Desert Sands Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Desert Sands Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 2, 2018



Desert Sands Unified School District

47-950 Dune Palms Road • La Quinta, California 92253 • (760) 771-8508 • FAX: (760) 771-8522

BOARD OF EDUCATION:

Gary Tomak, Wendy Jonathan, Michael Duran, Donald B. Griffith, Linda Porras

SUPERINTENDENT: Scott Bailey

-BUSINESS SERVICES-

This section of Desert Sands Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

The Primary unit of the government is the Desert Sands Unified School District.

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

Governmental Activities - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, adult education students, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as general obligation bonds, finance these activities.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- The Assessed Valuation of taxable property within the District increased to \$39,631,044,757
- The net change in capital assets increased by \$33,248,779

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$385,779,967 for the fiscal year ended June 30, 2018, compared to \$385,766,380 in the prior year. Of this amount, \$(239,841,786) was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the Board's ability to use the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
		(as restated)
	2018	2017
Assets		
Current and other assets	\$ 204,933,995	\$ 242,897,356
Capital assets	929,160,910	895,912,131
Total Assets	1,134,094,905	1,138,809,487
Deferred Outflows of Resources		
Deferred charge on refunding	13,076,703	14,438,669
Deferred outflows of resources related to pensions	110,085,288	77,283,850
Total Deferred Outflows of Resources	123,161,991	91,722,519
Liabilities		
Current liabilities	39,365,474	35,844,291
Long-term obligations	477,551,073	504,012,195
Aggregate net pension liability	337,632,420	297,212,610
Total Liabilities	854,548,967	837,069,096
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	16,927,962	7,696,530
Net Position		
Net investment in capital assets	582,576,781	554,158,503
Restricted	43,044,972	55,800,512
Unrestricted deficit	(239,841,786)	(224,192,635)
Total Net Position	\$ 385,779,967	\$ 385,766,380

The \$(239,841,786) in unrestricted net deficit of governmental activities represents the accumulated results of all past years' operations.

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in Net Position

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

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 6,121,490	\$ 5,937,951
Operating grants and contributions	65,824,648	61,908,686
General revenues:		
Federal and State aid not restricted	185,141,133	187,673,187
Property taxes	137,246,193	132,934,900
Other general revenues	11,828,416	18,510,637
Total Revenues	<u>406,161,880</u>	<u>406,965,361</u>
Expenses		
Instruction-related	290,630,270	\$ 282,944,683
Pupil services	47,271,371	42,651,944
Administration	18,270,343	17,664,619
Plant services	31,590,013	30,993,821
Other	18,386,296	23,684,027
Total Expenses	<u>406,148,293</u>	<u>397,939,094</u>
Change in Net Position	<u>\$ 13,587</u>	<u>\$ 9,026,267</u>

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$406,148,293 compared to \$397,939,094 in the prior year, an increase of \$8,209,199 or 2.06 percent. The amount that our taxpayers ultimately financed for these activities through local taxes was \$137,246,193 because the cost was paid by those who benefited from the programs (\$6,121,490) or by other governments and organizations who subsidized certain programs with grants and contributions (\$65,824,648). We paid for the remaining "public benefit" portion of our governmental activities with \$196,969,549 in Federal and State funds and other revenues, like interest and general entitlements.

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

In Table 3, we have presented the net cost (total cost less revenues generated by the activities) of each of the District's largest functions – instruction, instruction-related activities, home-to-school transportation, other pupil services, administration, plant services, ancillary services, interest on long-term obligations, and other outgo. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Table 3

	<u>2018</u>		<u>2017</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction-related	\$ 290,630,270	\$ 244,672,400	\$ 282,944,683	\$ 239,151,566
Pupil services	47,271,371	29,158,032	42,651,944	25,671,470
Administration	18,270,343	17,243,083	17,664,619	16,607,538
Plant services	31,590,013	31,279,307	30,993,821	30,900,017
All other services	18,386,296	11,849,333	23,684,027	17,761,866
Total	<u>\$ 406,148,293</u>	<u>\$ 334,202,155</u>	<u>\$ 397,939,094</u>	<u>\$ 330,092,457</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$143,683,335, which is a decrease of \$48,224,419 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 40,748,367	\$ 332,526,461	\$ 327,048,764	\$ 46,226,064
Charter School Fund	11,646,573	20,886,882	19,885,376	12,648,079
Adult Education Fund	287,874	360,131	351,956	296,049
Child Development Fund	-	1,314,728	1,314,613	115
Cafeteria Fund	389,361	14,450,612	15,073,649	(233,676)
Building Fund	58,233,439	548,222	37,570,256	21,211,405
Capital Facilities Fund	14,842,249	3,487,883	11,783,482	6,546,650
County School Facilities Fund	-	3	3	-
Special Reserve Fund for Capital Outlay Projects	26,342,512	9,092,731	11,217,950	24,217,293
Capital Project Fund for Blended Component Units	119,319	81,481	-	200,800
Bond Interest and Redemption Fund	37,880,099	29,452,483	34,768,260	32,564,322
Building Corporation Fund	1,417,961	7,138,704	8,550,431	6,234
Total	<u>\$ 191,907,754</u>	<u>\$ 419,340,321</u>	<u>\$ 467,564,740</u>	<u>\$ 143,683,335</u>

The primary reasons for changes are the following:

1. The General Fund is the District's principal operating fund. The fund balance in the General Fund increased by \$5.5 million from the previous year due to the receipt of one-time monies.
2. The Building Fund decreased by \$37.0 million due to \$4 million of Measure K and \$33 million of Measure KK capital project expenditures.
3. The Special Reserve Fund for Capital Outlay Projects decreased by \$2.1 million due to ongoing capital project costs associated with the modernization of Indio High School.

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. Within 45 days of adoption of the State Budget, the District is required to provide the Board of Education with the budgetary impact. In addition, budget changes due to having the actual ending fund balances from the previous year are made in September, when the Unaudited Actuals Report is submitted to the Board.

First and Second Interim Financial Reports provide the Board with a comprehensive review of the District budgets and is used to make appropriation adjustments as needed. In addition, the Board approves Resolutions to Budget for Grants and Awards throughout the fiscal year to account for new and/or revised allocations. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 79.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$929,160,910 in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$33,248,779, or 3.7 percent, from last year.

Table 5

	Governmental Activities	
	2018	2017
Land and construction in process	\$ 266,629,691	\$ 214,984,975
Buildings and improvements, net of accumulated depreciation	656,614,308	676,112,790
Equipment, net of accumulated depreciation	5,916,911	4,814,366
Total	<u>\$ 929,160,910</u>	<u>\$ 895,912,131</u>

This year's equipment additions of \$54,677,027 included vehicles and technology upgrades. No debt was issued for these additions.

We anticipate capital additions of approximately \$24 million in 2018-2019.

The following construction projects continue for the 2018-2019 school year:

- Indio High School Reconstruction Phase 3 and 4
- Hoover Elementary School Modernization/Addition
- La Quinta Middle School Modernization
- Indio Middle School Modernization
- Madison Elementary School Modernization
- Kennedy Elementary School Modernization
- Oliphant Elementary

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Long-Term Obligations

The District has \$328,677,014 in General Obligation Bonds outstanding, a decrease of \$23,986,919 from 2017.

The District also had \$47,301,414 in certificates of participation outstanding versus \$54,352,002 last year, a decrease of \$7,050,588, or 12.97 percent. Capitalized lease obligations of \$5,094,609, supplemental early retirement program of \$204,515, unpaid accumulated vacation of \$1,072,451, the incurred but not reported portion of workers' compensation open claims liabilities of \$13,568,706, and the net other postemployment benefits obligation of \$81,632,364 are also included. We present more detailed information about our long-term obligations in Note 9 to the financial statements.

Table 6

	Governmental Activities	
	2018	(as restated) 2017
General obligation bonds	\$ 328,677,014	\$ 352,663,933
Certificates of participation	47,301,414	54,352,002
Capitalized lease obligations	5,094,609	7,529,120
Supplemental early retirement program	204,515	136,466
Accumulated vacation (net)	1,072,451	952,468
Net OPEB obligation	81,632,364	77,101,515
Workers' compensation IBNR	13,568,706	11,276,691
Total	<u>\$ 477,551,073</u>	<u>\$ 504,012,195</u>

Net Pension Liability (NPL)

As of June 30, 2018, the District's net pension liability is \$337,632,420.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the District's Board and management has been working with School Services of California guidance to help navigate budget calculations related to the Local Control Funding Formula (LCFF).

The key assumptions in our revenue forecast are:

1. LCFF Revenue projections include a 3 percent COLA with a gap funding rate of 100 percent.
2. Enrollment was projected to decline by 1.3 percent.
3. Prior Year Average Daily Attendance is utilized for the LCFF revenue projections.
4. Supplemental and Concentration funding is based on a projected rolling average of 71.54 percent unduplicated student population.

DESERT SANDS UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Expenditures are based on the following forecasts for regular education students:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Kindergarten through three	24:1	7,667
Grades four through five	30:1	3,700
Grades six through eight	31:1	5,354
Grades nine through twelve	32:1	9,408

The major changes to expenditure items specifically addressed in the budget are:

1. Employee step and column increases.
2. Increase in retirement contributions for CalSTRS and CalPERS.
3. Increased Reserve for Other Postemployment Benefits.
4. Committed funds for textbook allocation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services at Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California, 92253, or you can e-mail your question to jordan.aquino@desertsands.us.

DESERT SANDS UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 194,561,769
Receivables	9,648,141
Prepaid expenditures	22,631
Stores inventories	701,454
Capital assets	
Land and construction in process	266,629,691
Other capital assets	951,057,698
Less: Accumulated depreciation	<u>(288,526,479)</u>
Total Capital Assets	<u>929,160,910</u>
Total Assets	<u>1,134,094,905</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	13,076,703
Deferred outflows of resources related to pensions	<u>110,085,288</u>
Total Deferred Outflows of Resources	<u>123,161,991</u>
LIABILITIES	
Accounts payable	32,116,326
Interest payable	4,929,884
Unearned revenue	2,319,264
Long-term obligations	
Current portion of long-term obligations other than pensions	24,808,558
Noncurrent portion of long-term obligations other than pensions	<u>450,302,684</u>
Total Long-Term Obligations	<u>475,111,242</u>
Aggregate net pension liability	<u>337,632,420</u>
Total Liabilities	<u>852,109,136</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>16,927,962</u>
NET POSITION	
Net investment in capital assets	582,576,781
Restricted for:	
Debt service	27,640,672
Capital projects	6,546,650
Educational programs	7,935,302
Other activities	922,348
Unrestricted (Deficit)	<u>(239,841,786)</u>
Total Net Position	<u>\$ 385,779,967</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$245,479,741	\$ 2,214,830	\$ 36,678,563	\$ (206,586,348)
Instruction-related activities:				
Supervision of instruction	16,369,333	177,676	6,041,618	(10,150,039)
Instructional library, media, and technology	3,856,252	323	63,190	(3,792,739)
School site administration	24,924,944	1,356	780,314	(24,143,274)
Pupil services:				
Home-to-school transportation	9,547,159	48,342	377,484	(9,121,333)
Food services	15,685,619	1,326,298	11,082,573	(3,276,748)
All other pupil services	22,038,593	212,866	5,065,776	(16,759,951)
Administration:				
Data processing	5,252,782	14,542	21,086	(5,217,154)
All other administration	13,017,561	748	990,884	(12,025,929)
Plant services	31,590,013	85,533	225,173	(31,279,307)
Ancillary services	4,688,633	1,456	1,692,654	(2,994,523)
Community services	12,555	-	1,935	(10,620)
Enterprise services	92,190	2,825	1,157	(88,208)
Interest on long-term obligations	12,174,191	-	-	(12,174,191)
Other outgo	1,418,727	2,034,695	2,802,241	3,418,209
Total Governmental Activities	\$406,148,293	\$ 6,121,490	\$ 65,824,648	(334,202,155)
General Revenues and Subventions:				
Property taxes, levied for general purposes				87,392,137
Property taxes, levied for debt service				29,001,498
Property taxes levied for other specific purposes				20,852,558
Federal and State aid not restricted to specific purposes				185,141,133
Interest and investment earnings				933,022
Interagency revenues				650,151
Miscellaneous				10,245,243
Subtotal, General Revenues				334,215,742
Change in Net Position				13,587
Net Position - Beginning				426,886,558
Restatement due to GASB Statement No. 75				(41,120,178)
Net Position - Beginning, as Restated				385,766,380
Net Position - Ending				\$ 385,779,967

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
ASSETS				
Deposits and investments	\$62,801,214	\$23,485,665	\$11,765,082	\$ 20,845,312
Receivables	8,000,462	112,218	438,694	89,986
Due from other funds	6,247,451	500,753	-	3,544,581
Prepaid expenditures	-	-	-	-
Stores inventories	374,026	-	-	-
Total Assets	<u>\$77,423,153</u>	<u>\$24,098,636</u>	<u>\$12,203,776</u>	<u>\$ 24,479,879</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$23,373,539	\$ 2,887,231	\$ 5,155,765	\$ 262,150
Due to other funds	5,529,393	-	501,361	436
Unearned revenue	2,294,157	-	-	-
Total Liabilities	<u>31,197,089</u>	<u>2,887,231</u>	<u>5,657,126</u>	<u>262,586</u>
Fund Balances:				
Nonspendable	399,026	-	-	-
Restricted	7,935,302	21,211,405	6,546,650	-
Committed	15,342,663	-	-	-
Assigned	2,678,446	-	-	24,217,293
Unassigned	19,870,627	-	-	-
Total Fund Balances	<u>46,226,064</u>	<u>21,211,405</u>	<u>6,546,650</u>	<u>24,217,293</u>
Total Liabilities and Fund Balances	<u>\$77,423,153</u>	<u>\$24,098,636</u>	<u>\$12,203,776</u>	<u>\$ 24,479,879</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 32,564,322	\$ 16,382,518	\$ 167,844,113
-	896,504	9,537,864
-	1,971,043	12,263,828
-	22,631	22,631
-	327,428	701,454
<u>\$ 32,564,322</u>	<u>\$ 19,600,124</u>	<u>\$ 190,369,890</u>
\$ -	\$ 412,546	\$ 32,091,231
-	6,244,870	12,276,060
-	25,107	2,319,264
<u>-</u>	<u>6,682,523</u>	<u>46,686,555</u>
-	515,059	914,085
32,564,322	1,044,284	69,301,963
-	97,958	15,440,621
-	11,844,035	38,739,774
-	(583,735)	19,286,892
<u>32,564,322</u>	<u>12,917,601</u>	<u>143,683,335</u>
<u>\$ 32,564,322</u>	<u>\$ 19,600,124</u>	<u>\$ 190,369,890</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total Fund Balance - Governmental Funds		\$ 143,683,335
Amounts Reported for Governmental Activities in the Statement of Net Position is Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	\$ 1,217,687,389	
Accumulated depreciation is:	<u>(288,526,479)</u>	
Net Capital Assets		929,160,910
Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.		13,076,703
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(4,929,884)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program and retiree benefits to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.		13,246,364
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds.		
Deferred outflows of resources related to pensions at year end consist of:		
Pension contributions subsequent to measurement date	28,903,411	
Net change in proportionate share of net pension liability	14,768,700	
Difference between projected and actual earning on pension plan investments	3,285,543	
Differences between expected and actual experience in the measurement of the total pension liability	4,299,986	
Changes of assumptions	<u>58,827,648</u>	
Total Deferred Outflows of Resources Related to Pensions		110,085,288

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED) JUNE 30, 2018

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

Net change in proportionate share of net pension liability	\$ (5,114,823)	
Difference between expected and actual experience in the measurement of the total pension liability	(4,232,307)	
Difference between projected and actual earning on pension plan investments	(6,462,599)	
Changes of assumptions	<u>(1,118,233)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (16,927,962)

Net pension liability is not due and payable in the current period and, is not reported as a liability in the funds. (337,632,420)

Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year end consist of:

General obligation bonds	294,895,000	
Unamortized premium on issuance	37,533,428	
Certificates of participation	43,550,000	
Supplemental early retirement program	204,515	
Capital leases payable	5,094,609	
Compensated absences (vacations)	1,072,451	
Net other postemployment benefits (OPEB) liability	<u>81,632,364</u>	
Total Long-Term Obligations		<u>(463,982,367)</u>
Total Net Position - Governmental Activities		<u>\$ 385,779,967</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 245,945,081	\$ -	\$ -
Federal sources	16,601,854	-	-
Other State sources	30,096,413	-	-
Other local sources	39,883,113	548,222	3,487,883
Total Revenues	<u>332,526,461</u>	<u>548,222</u>	<u>3,487,883</u>
EXPENDITURES			
Current			
Instruction	195,762,205	-	-
Instruction-related activities:			
Supervision of instruction	15,235,975	-	-
Instructional library, media, and technology	3,427,402	-	-
School site administration	21,361,774	-	-
Pupil services:			
Home-to-school transportation	8,814,802	-	-
Food services	212,120	-	-
All other pupil services	20,072,442	-	-
Administration:			
Data processing	4,705,985	-	-
All other administration	11,331,369	-	-
Plant services	29,578,161	348,705	347,221
Ancillary services	4,545,381	-	-
Community services	12,638	-	-
Other outgo	56,761	-	-
Enterprise services	612	-	-
Facility acquisition and construction	304,771	37,221,551	11,436,261
Debt service			
Principal	2,434,511	-	-
Interest and other	310,544	-	-
Total Expenditures	<u>318,167,453</u>	<u>37,570,256</u>	<u>11,783,482</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>14,359,008</u>	<u>(37,022,034)</u>	<u>(8,295,599)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(8,881,311)	-	-
Net Financing Sources (Uses)	<u>(8,881,311)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	5,477,697	(37,022,034)	(8,295,599)
Fund Balances - Beginning	40,748,367	58,233,439	14,842,249
Fund Balances - Ending	<u>\$ 46,226,064</u>	<u>\$ 21,211,405</u>	<u>\$ 6,546,650</u>

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

Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 17,153,701	\$ 263,098,782
-	-	11,296,044	27,897,898
259,460	153,279	4,661,315	35,170,467
288,690	29,299,204	3,649,320	77,156,432
548,150	29,452,483	36,760,380	403,323,579
-	-	15,256,449	211,018,654
-	-	85,340	15,321,315
-	-	234,915	3,662,317
-	-	2,081,919	23,443,693
-	-	373,277	9,188,079
-	-	15,020,849	15,232,969
-	-	646,230	20,718,672
-	-	381,517	5,087,502
-	-	573,367	11,904,736
1,214,560	-	1,067,601	32,556,248
-	-	-	4,545,381
-	-	-	12,638
-	-	-	56,761
-	-	73,748	74,360
2,845,259	-	830,385	52,638,227
-	21,220,000	6,255,000	29,909,511
22,700	13,548,260	2,295,431	16,176,935
4,082,519	34,768,260	45,176,028	451,547,998
(3,534,369)	(5,315,777)	(8,415,648)	(48,224,419)
8,544,581	-	7,472,161	16,016,742
(7,135,431)	-	-	(16,016,742)
1,409,150	-	7,472,161	-
(2,125,219)	(5,315,777)	(943,487)	(48,224,419)
26,342,512	37,880,099	13,861,088	191,907,754
\$ 24,217,293	\$ 32,564,322	\$ 12,917,601	\$ 143,683,335

DESERT SANDS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds		\$(48,224,419)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Capital outlay	\$ 54,677,027	
Depreciation expense	<u>(21,165,940)</u>	
Net Expense Adjustment		33,511,087
Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Position, but is not recorded in the governmental funds.		(262,308)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits earned was more than amounts used by \$68,049. Vacation used was less than amounts earned by \$119,983.		(188,032)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(16,849,804)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows and net OPEB liability during the year.		(4,530,849)

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2018

Repayment of general obligation bonds, certificates of participation, special tax bonds and capital lease obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 21,220,000	
Certificates of participation	6,255,000	
Capital lease obligations	<u>2,434,511</u>	
Combined Adjustment		\$ 29,909,511

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	3,562,507	
Amortization of deferred amount on refunding	<u>(1,361,966)</u>	
Combined Adjustment		2,200,541

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of accrued interest on the general obligation bonds, and certificates of participation which decreased by \$440,237.

440,237

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

4,007,623

Change in Net Position of Governmental Activities

\$ 13,587

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Internal Service Fund		
	Workers' Compensation	Retiree Benefits	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 17,839,971	\$ 8,877,685	\$ 26,717,656
Receivables	110,062	215	110,277
Due from other funds	10,997	4,906	15,903
Total Current Assets	<u>17,961,030</u>	<u>8,882,806</u>	<u>26,843,836</u>
LIABILITIES			
Current Liabilities			
Accounts payable	25,095	-	25,095
Due to other funds	-	3,671	3,671
Claims liability - current portion	2,439,831	-	2,439,831
Total Current Liabilities	<u>2,464,926</u>	<u>3,671</u>	<u>2,468,597</u>
Noncurrent Liabilities			
Claims liability - noncurrent portion	11,128,875	-	11,128,875
Total Liabilities	<u>13,593,801</u>	<u>3,671</u>	<u>13,597,472</u>
NET POSITION			
Restricted	4,367,229	8,879,135	13,246,364
Total Net Position	<u>\$ 4,367,229</u>	<u>\$ 8,879,135</u>	<u>\$ 13,246,364</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Internal Service Fund		
	Workers' Compensation	Retiree Benefits	Total
OPERATING REVENUES			
Charges to other funds	\$ 4,423,589	\$ 4,846,694	\$ 9,270,283
OPERATING EXPENSES			
Payroll costs	301,562	-	301,562
Professional and contract services	3,055,414	2,237,905	5,293,319
Supplies and materials	(8,175)	-	(8,175)
Total Operating Expenses	<u>3,348,801</u>	<u>2,237,905</u>	<u>5,586,706</u>
Operating Income	<u>1,074,788</u>	<u>2,608,789</u>	<u>3,683,577</u>
NON-OPERATING REVENUES			
Interest income	324,046	-	324,046
Change in Net Position	1,398,834	2,608,789	4,007,623
Net Position - Beginning	<u>2,968,395</u>	<u>6,270,346</u>	<u>9,238,741</u>
Net Position - Ending	<u>\$ 4,367,229</u>	<u>\$ 8,879,135</u>	<u>\$ 13,246,364</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities Internal Service Fund Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from interfund services provided	\$ 10,470,045
Cash payments to other suppliers of goods or services	(5,321,533)
Cash payments to employees for services	(293,387)
Net Cash Provided by Operating Activities	<u>4,855,125</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>264,504</u>
 Net Increase in Cash and Cash Equivalents	5,119,629
Cash and Cash Equivalents - Beginning	21,598,027
Cash and Cash Equivalents - Ending	<u>\$ 26,717,656</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 3,683,577
Adjustments to reconcile operating income to net cash provided by operating activities:	
Due from other funds	1,199,762
Accounts payable	(31,227)
Due to other funds	3,013
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,855,125</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Debt Service Fund for Special Tax Bonds	Associated Student Bodies	Total Fiduciary Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 337,688	\$ 1,495,983	\$ 1,833,671
Total Assets	<u>\$ 337,688</u>	<u>\$ 1,522,149</u>	<u>\$ 1,859,837</u>
LIABILITIES			
Accounts payable	\$ -	\$ 255	\$ 255
Due to student groups	-	1,521,894	1,521,894
Due to bond holders	337,688	-	337,688
Total Liabilities	<u>\$ 337,688</u>	<u>\$ 1,522,149</u>	<u>\$ 1,859,837</u>

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Desert Sands Unified School District (the District) was unified on July 1, 1966, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nineteen elementary schools, six middle schools, four high schools, two continuation high schools, one alternative education school, and two charter schools.

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

Component Units

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

The Desert Sands Unified School District Building Corporation's (the Corporation) financial activity is presented in the financial statements as the Building Corporation Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements of the Desert Sands Unified School District Building Corporation may be obtained through the business office of the District.

The Desert Sands Unified School District Community Facilities District No. 1 (CFD) financial activity is presented in the Fiduciary Fund Statements as the Debt Service Fund for Special Tax Bonds and in the financial statements as the Capital Project Fund for Blended Component Units. Special Tax Bonds issued by the CFD are not included in the long-term obligations of the Statement of Net Position as they are not obligations of the District. Individually prepared financial statements are not prepared for the Community Facilities District No. 1.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Other Related Entities

Charter School The District has approved Charters for George Washington Charter School and Palm Desert Charter Middle School pursuant to *Education Code* Section 47605. The George Washington Charter School and Palm Desert Charter Middle School are District conversion charters, and their financial activities are presented in the Charter School Special Revenue Fund.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in fund balance of \$1,540,397.

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

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Non-Major Governmental Funds

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

Charter School Fund The Charter School Fund may be used by authorizing districts to account separately for the operating activities of district-operated charter schools that would otherwise be reported in the authorizing district's General Fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

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

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

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Building Corporation Fund The Building Corporation Fund is used to account for Capital Improvements and for the interest and redemption of principal for the Certificates of Participation.

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

Internal Service Fund Internal Service Funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District operates a Self-Insurance program for workers' compensation services and retiree benefits that are accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

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

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

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

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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

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

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

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Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However to achieve comparability of reporting among California District's and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for District's as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

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Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventories

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

Capital Assets and Depreciation

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

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

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

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Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

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Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2017-2018, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$43,044,972 of restricted net position.

Operating Revenues and Expenses

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

Interfund Activity

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Estimates

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

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

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- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

New Accounting Pronouncements

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

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

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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

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

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

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 194,561,769
Fiduciary funds	<u>1,833,671</u>
Total Deposits and Investments	<u>\$ 196,395,440</u>

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	\$ 1,808,546
Cash in revolving	190,000
Investments	<u>194,396,894</u>
Total Deposits and Investments	<u>\$ 196,395,440</u>

Policies and Practices

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

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

General Authorizations

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

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

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 primarily investing in the Riverside County Investment Pool.

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

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average Maturity in Days</u>
U.S. Treasuries	\$ 337,688	27
Riverside County Investment Pool	194,059,206	427
Total	<u>\$ 194,396,894</u>	

Credit Risk

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

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Moody's Rating June 30, 2018</u>	<u>Reported Amount</u>
Money Market - Treasury Obligations	Not Required	Aaa-mf	\$ 337,688
Riverside County Investment Pool	Not Required	Aaa-bf	194,059,206
Total Investments			<u>\$ 194,396,894</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$1,741,506 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Uncategorized
Riverside County Investment Pool	\$ 194,059,206	\$ 194,059,206

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources.

All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve		Internal Service Fund	Total Governmental Activities
				Fund For Capital Outlay Projects	Non-Major Governmental Funds		
Federal Government							
Categorical aid	\$ 1,104,339	\$ -	\$ -	\$ -	\$ 664,193	\$ -	\$ 1,768,532
State Government							
Local Control							
Funding Formula	286	-	-	-	-	-	286
Categorical aid	2,037,806	-	-	-	42,461	-	2,080,267
Lottery	1,111,864	-	-	-	-	-	1,111,864
Local Government							
Interest	224,713	112,218	69,305	89,986	82,639	110,062	688,923
Other Local Sources	3,521,454	-	369,389	-	107,211	215	3,998,269
Total	<u>\$ 8,000,462</u>	<u>\$ 112,218</u>	<u>\$ 438,694</u>	<u>\$ 89,986</u>	<u>\$ 896,504</u>	<u>\$ 110,277</u>	<u>\$ 9,648,141</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 42,866,791	\$ -	\$ -	\$ 42,866,791
Construction in process	172,118,184	51,644,716	-	223,762,900
Total Capital Assets Not Being Depreciated	<u>214,984,975</u>	<u>51,644,716</u>	<u>-</u>	<u>266,629,691</u>
Capital Assets Being Depreciated				
Buildings	797,767,052	12,274	-	797,779,326
Building improvements	120,849,504	965,943	439,750	121,375,697
Equipment	30,417,464	2,054,094	568,883	31,902,675
Total Capital Assets Being Depreciated	<u>949,034,020</u>	<u>3,032,311</u>	<u>1,008,633</u>	<u>951,057,698</u>
Less Accumulated Depreciation				
Buildings	180,012,927	15,907,673	-	195,920,600
Building improvements	62,490,839	4,306,718	177,442	66,620,115
Equipment	25,603,098	951,549	568,883	25,985,764
Total Accumulated Depreciation	<u>268,106,864</u>	<u>21,165,940</u>	<u>746,325</u>	<u>288,526,479</u>
Governmental Activities Capital Assets, Net	<u>\$ 895,912,131</u>	<u>\$ 33,511,087</u>	<u>\$ 262,308</u>	<u>\$ 929,160,910</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 20,132,135
Supervision of instruction	61,529
Instructional library, media, and technology	20,699
Home-to-school transportation	73,593
Food services	118,175
Data processing	74,425
All other administration	513,392
Plant services	171,992
Total Depreciation Expenses All Activities	<u>\$ 21,165,940</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From					Total
	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 608	\$ 436	\$ 6,242,736	\$ 3,671	\$ 6,247,451
Building Fund	-	500,753	-	-	-	500,753
Special Reserve Fund for Capital Outlay Projects	3,544,581	-	-	-	-	3,544,581
Non-Major Governmental Funds	1,970,701	-	-	342	-	1,971,043
Internal Service Fund	14,111	-	-	1,792	-	15,903
Total	\$ 5,529,393	\$ 501,361	\$ 436	\$ 6,244,870	\$ 3,671	\$ 12,279,731

The balance of \$500,753 is due to the Building Fund from the Capital Facilities Fund for salaries and expenses.

A balance of \$618,297 is due to the General Fund from the Child Development Non-Major Governmental Fund for contribution and interest.

A balance of \$2,586,797 is due to the General Fund from the Charter School Non-Major Governmental Fund for indirect costs, special education encroachment, and transportation costs.

The balance of \$3,544,581 is due to the Special Reserve Fund for Capital Outlay Projects from the General Fund for redevelopment funds.

A balance of \$349,233 is due to the Child Development Non-Major Governmental Fund from the General Fund for supplemental concentration contribution.

A balance of \$3,036,976 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for the repayment of a temporary loan.

A balance of \$329,961 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for 2017-2018 contribution and vehicle costs.

All remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Transfers

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

Transfer To	General Fund	Transfer From Special Reserve Fund for Capital Outlay Projects	Total
Special Reserve Fund for Capital Outlay Projects	\$ 8,544,581	\$ -	\$ 8,544,581
Non-Major Governmental Funds	336,730	7,135,431	7,472,161
Total	\$ 8,881,311	\$ 7,135,431	\$ 16,016,742

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for redevelopment pass-through.	\$ 8,544,581
The General Fund transferred to the Child Development Non-Major Governmental Fund for current year contribution.	53,616
The General Fund transferred to the Cafeteria Non-Major Governmental Fund for District contributions.	204,126
The General Fund transferred to the Charter School Non-Major Governmental Fund for in lieu property taxes.	78,988
The Special Reserve Fund for Capital Outlay Projects transferred to the Building Corporation Non-Major Governmental Fund for Certificates of Participation debt service payments.	7,135,431
Total	\$ 16,016,742

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund For Capital Outlay Projects	Non-Major Governmental Funds	Internal Service Fund
Vendor payables	\$ 1,965,925	\$ -	\$ 109,061	\$ 5,945	\$ 169,595	\$ 25,095
State principal apportionment	17,293,532	-	-	-	174,293	-
Salaries and benefits	3,976,765	-	-	-	68,658	-
Construction	137,317	2,887,231	5,046,704	256,205	-	-
Total	<u>\$ 23,373,539</u>	<u>\$ 2,887,231</u>	<u>\$ 5,155,765</u>	<u>\$ 262,150</u>	<u>\$ 412,546</u>	<u>\$ 25,095</u>

	Total Governmental Activities	Fiduciary Funds
Vendor payables	\$ 2,275,621	\$ 255
State principal apportionment	17,467,825	-
Salaries and benefits	4,045,423	-
Construction	8,327,457	-
Total	<u>\$ 32,116,326</u>	<u>\$ 255</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 219,021	\$ -	\$ 219,021
State categorical aid	2,075,136	25,107	2,100,243
Total	<u>\$ 2,294,157</u>	<u>\$ 25,107</u>	<u>\$ 2,319,264</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance (as restated)			Balance June 30, 2018	Due in One Year
	July 1, 2017	Additions	Deductions		
General obligation bonds	\$ 316,115,000	\$ -	\$ 21,220,000	\$ 294,895,000	\$ 13,225,000
Premium on Issuance	36,548,933	-	2,766,919	33,782,014	-
Certificates of Participation	49,805,000	-	6,255,000	43,550,000	6,550,000
Premium on Issuance	4,547,002	-	795,588	3,751,414	-
Capital leases	7,529,120	-	2,434,511	5,094,609	2,508,672
Supplemental Early Retirement Program	136,466	153,104	85,055	204,515	85,055
Accumulated vacation (net)	952,468	119,983	-	1,072,451	-
Net OPEB Liability	77,101,515	4,777,991	247,142	81,632,364	-
Claims Liability	11,276,691	2,292,015	-	13,568,706	2,439,831
	<u>\$ 504,012,195</u>	<u>\$ 7,343,093</u>	<u>\$ 33,804,215</u>	<u>\$ 477,551,073</u>	<u>\$ 24,808,558</u>

Payments for bonds associated with general obligation bonds are made in the Bond Interest and Redemption Fund. Payments on certificates of participation are made in the Building Corporation Fund. Payments for capital lease obligations are made in the General Fund and Special Reserve Fund for Capital Outlay Projects. Payments for the supplemental early retirement program are made in the General Fund. Payments for accumulated vacation and Net Other Postemployment Benefits (OPEB) Liability are typically liquidated in the General Fund. Payments for claims liability are made from the Self-Insurance Internal Service Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2018	Due in One Year
				Outstanding July 1, 2017	Redeemed		
11/01/08	08/01/18	3.67%-5.28%	\$ 100,000,000	\$ 9,985,000	\$ 4,765,000	\$ 5,220,000	\$ 5,220,000
12/01/12	08/01/31	0.57%-3.20%	74,000,000	72,750,000	3,695,000	69,055,000	3,805,000
06/01/13	06/01/31	1.43%-3.06%	52,355,000	52,355,000	-	52,355,000	-
06/01/13	06/01/22	1.53%-3.00%	9,900,000	7,940,000	1,785,000	6,155,000	1,975,000
07/01/15	08/01/44	2.00%-3.50%	75,000,000	70,000,000	10,000,000	60,000,000	1,140,000
07/01/15	08/01/28	2.00%-4.00%	84,640,000	82,530,000	-	82,530,000	-
04/01/16	06/01/31	2.00%-4.00%	21,940,000	20,555,000	975,000	19,580,000	1,085,000
				<u>\$ 316,115,000</u>	<u>\$ 21,220,000</u>	<u>\$ 294,895,000</u>	<u>\$ 13,225,000</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2008 Series General Obligation Bonds

In November 2008, the District issued \$100,000,000 in Election of 2001, 2008 Series General Obligation Bonds. Proceeds from the Bonds were used to finance the construction, renovation, and repair of District facilities as specified by voters of the District. The Bonds mature August 1, 2018, and yield interest of 3.67 percent to 5.28 percent. At June 30, 2018, the principal balance and unamortized premium outstanding was \$5,220,000 and \$312,708, respectively.

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>\$ 5,220,000</u>	<u>\$ 150,075</u>	<u>\$ 5,370,075</u>

2012 Series General Obligation Bonds

In December 2012, the District issued \$74,000,000 in Election of 2001, 2012 Series General Obligation Bonds. Proceeds from the Bonds were used to finance the construction, renovation, and repair of District facilities as specified by voters of the District. The Bonds mature August 1, 2031, and yield interest of 0.57 percent to 3.20 percent. At June 30, 2018, the principal balance outstanding was \$69,055,000 and unamortized premium was \$5,447,993.

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,805,000	\$ 2,473,500	\$ 6,278,500
2020	3,960,000	2,318,200	6,278,200
2021	4,115,000	2,156,700	6,271,700
2022	4,280,000	1,988,800	6,268,800
2023	4,450,000	1,814,200	6,264,200
2024-2028	24,930,000	6,389,925	31,319,925
2029-2033	<u>23,515,000</u>	<u>1,497,275</u>	<u>25,012,275</u>
Total	<u>\$ 69,055,000</u>	<u>\$ 18,638,600</u>	<u>\$ 87,693,600</u>

2013 General Obligation Refunding Bonds, Series A

In June 2013, the District issued \$52,355,000 in 2013 General Obligation Refunding Bonds, Series A. Proceeds from the Bonds were used to advance refund a portion of the District's outstanding General Obligation Bonds, Election 2001, Series 2006. The Bonds mature June 1, 2031, and yield interest of 1.43 percent to 3.06 percent. At June 30, 2018, the principal balance outstanding was \$52,355,000 and unamortized premium was \$7,470,013.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 2,604,400	\$ 2,604,400
2020	3,545,000	2,604,400	6,149,400
2021	105,000	2,427,150	2,532,150
2022	4,075,000	2,424,000	6,499,000
2023	4,865,000	2,225,000	7,090,000
2024-2028	22,330,000	7,692,500	30,022,500
2029-2032	17,435,000	1,794,250	19,229,250
Total	<u>\$ 52,355,000</u>	<u>\$ 21,771,700</u>	<u>\$ 74,126,700</u>

2013 General Obligation Refunding Bonds, Series B

In June 2013, the District issued \$9,900,000 in 2013 General Obligation Refunding Bonds, Series B. Proceeds from the Bonds were used to advance refund a portion of the District's outstanding General Obligation Bonds, Election 2001, Series 2006. The Bonds mature June 1, 2022, and yield interest of 1.53 percent to 3.00 percent. At June 30, 2018, the principal balance outstanding was \$6,155,000.

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,975,000	\$ 164,615	\$ 2,139,615
2020	-	119,663	119,663
2021	3,880,000	119,663	3,999,663
2022	300,000	9,007	309,007
Total	<u>\$ 6,155,000</u>	<u>\$ 412,948</u>	<u>\$ 6,567,948</u>

2014 General Obligation Bonds, Series 2015

In July 2015, the District issued \$75,000,000 in 2014 General Obligation Bonds, Series 2015. Proceeds from the Bonds were used to finance the acquisition, construction, modernization, and equipping of District sites and facilities. The Bonds mature August 1, 2044, and yield interest of 2.00 percent to 3.50 percent. At June 30, 2018, the principal balance outstanding was \$60,000,000 and unamortized premium was \$7,041,654.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,140,000	\$ 2,834,575	\$ 3,974,575
2020	1,185,000	2,788,075	3,973,075
2021	1,230,000	2,733,625	3,963,625
2022	1,295,000	2,670,500	3,965,500
2023	1,360,000	2,604,125	3,964,125
2024-2028	7,885,000	11,916,513	19,801,513
2029-2033	9,840,000	9,906,525	19,746,525
2034-2038	12,530,000	7,133,750	19,663,750
2039-2043	15,995,000	3,585,375	19,580,375
2044-2045	7,540,000	304,600	7,844,600
Total	<u>\$ 60,000,000</u>	<u>\$ 46,477,663</u>	<u>\$ 106,477,663</u>

2015 General Obligation Refunding Bonds

In July 2015, the District issued \$84,640,000 in 2015 General Obligation Refunding Bonds. Proceeds from the Bonds were used to advance refund a portion of the District's outstanding General Obligation Bonds, Election 2001, Series 2008. The Bonds mature August 1, 2028, and yield interest of 2.00 percent to 4.00 percent. The refunding resulted in a cumulative cash flow savings of \$7,804,721 over the life of the new debt and an economic gain of \$6,481,246 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 7.71 percent. At June 30, 2018, the principal balance outstanding was \$82,530,000, and unamortized premium and deferred charge on refunding were \$10,219,121 and \$10,198,648, respectively.

The outstanding general obligation bonded debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 3,800,950	\$ 3,800,950
2020	5,750,000	3,685,950	9,435,950
2021	6,180,000	3,416,450	9,596,450
2022	6,700,000	3,094,450	9,794,450
2023	7,245,000	2,745,825	9,990,825
2024-2028	45,570,000	7,538,350	53,108,350
2029	11,085,000	221,700	11,306,700
Total	<u>\$ 82,530,000</u>	<u>\$ 24,503,675</u>	<u>\$ 107,033,675</u>

2016 General Obligation Refunding Bonds

In April 2016, the District issued \$21,940,000 in 2016 General Obligation Refunding Bonds. Proceeds from the Bonds were used to currently refund a portion of the District's remaining outstanding General Obligation Bonds, Election 2001, Series 2006. The Bonds mature June 1, 2031, and yield interest of 2.00 percent to 4.00 percent.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The refunding resulted in a cumulative cash flow savings of \$6,658,298 over the life of the new debt and an economic gain of \$5,429,510 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 21.74 percent. At June 30, 2018, the principal balance outstanding was \$19,580,000, and unamortized premium and deferred charge on refunding were \$3,290,525 and \$499,899, respectively.

The outstanding general obligation bonded debt is as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,085,000	\$ 870,900	\$ 1,955,900
2020	-	860,050	860,050
2021	-	860,050	860,050
2022	-	860,050	860,050
2023	-	860,050	860,050
2024-2028	9,170,000	3,665,500	12,835,500
2029-2032	9,325,000	794,550	10,119,550
Total	\$ 19,580,000	\$ 8,771,150	\$ 28,351,150

Certificates of Participation

The outstanding certificates of participation debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2018	Due in One Year
				Bonds Outstanding July 1, 2017	Redeemed		
10/01/08	03/01/18	2.60%-5.82%	\$ 54,505,000	\$ 3,420,000	\$ 3,420,000	\$ -	\$ -
12/01/12	03/01/20	0.60%-2.00%	13,000,000	5,400,000	1,710,000	3,690,000	1,795,000
06/01/14	03/01/29	3.00%-3.50%	18,895,000	16,240,000	1,060,000	15,180,000	1,100,000
07/01/15	03/01/24	2.00%-5.00%	25,340,000	24,745,000	65,000	24,680,000	3,655,000
				\$ 49,805,000	\$ 6,255,000	\$ 43,550,000	\$ 6,550,000

2008 Series Certificates of Participation

In October 2008, the Corporation issued \$54,505,000 in 2008 Certificates of Participation. Proceeds from the certificates were used to finance certain capital improvements of the District. The Certificates of Participation mature in 2018, and interest rate yields range from 2.60 percent to 5.82 percent. At June 30, 2018, the principal and unamortized premium balance outstanding has been paid off.

2012 Refunding Certificates of Participation

In December 2012, the Corporation issued \$13,000,000 in Refunding Certificates of Participation. Proceeds from the certificates were used to prepay the remaining 2002 and 2003 Refunding Certificates of Participation. The Certificates of Participation mature in 2020, and interest rate yields range from 0.60 percent to 2.00 percent. At June 30, 2018, the principal balance outstanding was \$3,690,000 and unamortized premium was \$346,062.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Annual interest and redemption requirements for the 2012 Refunding Certificates of Participation outstanding at June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,795,000	\$ 184,500	\$ 1,979,500
2020	1,895,000	94,750	1,989,750
Total	<u>\$ 3,690,000</u>	<u>\$ 279,250</u>	<u>\$ 3,969,250</u>

2014 Series Certificates of Participation

In June 2014, the Corporation issued \$18,895,000 in 2014 Certificates of Participation. Proceeds from the certificates were used to finance certain capital improvements of the District. The Certificates of Participation mature in 2029, and interest rate yields range from 3.00 percent to 3.50 percent. At June 30, 2018, the principal and unamortized premium balance outstanding was \$15,180,000 and \$1,038,358, respectively.

Annual interest and redemption requirements for the 2014 Certificates of Participation outstanding at June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,100,000	\$ 612,631	\$ 1,712,631
2020	1,145,000	568,631	1,713,631
2021	1,200,000	511,381	1,711,381
2022	1,260,000	451,381	1,711,381
2023	1,315,000	396,981	1,711,981
2024-2028	7,505,000	1,065,963	8,570,963
2029	<u>1,655,000</u>	<u>57,925</u>	<u>1,712,925</u>
Total	<u>\$ 15,180,000</u>	<u>\$ 3,664,893</u>	<u>\$ 18,844,893</u>

2015 Refunding Certificates of Participation

In July 2015, the Corporation issued \$25,340,000 in Refunding Certificates of Participation. Proceeds from the certificates were used to refund a portion of the District's Certificate of Participation (2008 Financing Project). The Certificates of Participation mature in 2024, and interest rate yields range from 2.00 percent to 5.00 percent. The refunding resulted in a cumulative cash flow savings of \$1,225,374 over the life of the new debt and an economic gain of \$1,103,306 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 4.45 percent. At June 30, 2018, the principal balance outstanding was \$24,680,000, and unamortized premium and deferred charge on refunding were \$2,366,994 and \$2,378,166, respectively.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Annual interest and redemption requirements for the 2015 Refunding Certificates of Participation outstanding at June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,655,000	\$ 1,197,450	\$ 4,852,450
2020	3,805,000	1,051,250	4,856,250
2021	3,995,000	861,000	4,856,000
2022	4,195,000	661,250	4,856,250
2023	4,405,000	451,500	4,856,500
2024-2025	4,625,000	231,250	4,856,250
Total	<u>\$ 24,680,000</u>	<u>\$ 4,453,700</u>	<u>\$ 29,133,700</u>

Capital Leases

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

	<u>General Fund</u>
Balance, July 1, 2017	\$ 7,794,520
Payments	<u>2,572,289</u>
Balance, June 30, 2018	<u>\$ 5,222,231</u>

Capital lease payment schedule as of June 30, 2018, is as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2019	\$ 2,597,635
2020	<u>2,624,596</u>
Total	5,222,231
Less: Amount Representing Interest	<u>127,622</u>
Present Value of Minimum Lease Payments	<u>\$ 5,094,609</u>

Supplemental Early Retirement Program

The District offered an early retirement incentive to qualified employees under a qualified plan of Section 401A of the Internal Revenue Code. The retiree receives an annual benefit payment in five equal installments. Currently, there are 184 employees participating in this plan, and the District's obligation to those retirees as of June 30, 2018, is \$204,515.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Future payments are as follows:

Year Ending June 30,	Payment
2019	\$ 85,055
2020	58,220
2021	30,621
2022	30,619
Total	<u>\$ 204,515</u>

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2018, was \$1,072,451.

Claims Liabilities

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amounts of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding liability at June 30, 2018, amounted to \$13,568,706.

Net Other Postemployment Benefits (OPEB) Liability

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

<u>OPEB Plan</u>	<u>Net OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 79,633,863	\$ 4,777,991
Medicare Premium Payment (MPP) Program	1,998,501	(247,142)
Total	<u>\$ 81,632,364</u>	<u>\$ 4,530,849</u>

The details of each plan are as follows:

District Plan

Plan Administration

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	198
Active employees	<u>2,393</u>
	<u><u>2,591</u></u>

Benefits Provided

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

Contributions

The contribution requirements of the Plan members and the District are established and may be amended by the District, the Desert Sands Teachers Association (DSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, DSTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$3,486,584 to the Plan which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$79,633,863 was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.8 percent, net of expenses
Health care cost trend rates	4 percent for 2018

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 74,855,872
Service cost	5,386,763
Interest	2,877,812
Benefit payments	(3,486,584)
Net change in total OPEB liability	4,777,991
Balance at June 30, 2018	<u>\$ 79,633,863</u>

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.8%)	\$ 85,307,439
Current discount rate (3.8%)	79,633,863
1% increase (4.8%)	74,462,766

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

<u>Health Care Cost Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (3%)	\$ 75,330,595
Current discount rate (4%)	79,633,863
1% increase (5%)	83,643,802

OPEB Expense

For the year ended June 30, 2018, the District recognized OPEB expense of \$4,777,991.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities and OPEB Expense

At June 30, 2018, the District reported a liability of \$1,998,501 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.4750 percent and 0.4798, respectively, resulting in a net (decrease) in the proportionate share of 0.0048 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(247,242).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 2,212,480
Current discount rate (3.58%)	1,998,501
1% increase (4.58%)	1,790,361

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare cost trend rates that are one percent lower or higher than the current rate:

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.7% Part A and 3.1% Part B)	\$ 1,805,952
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,998,501
1% increase (4.7% Part A and 5.1% Part B)	2,189,127

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts and the Desert Sands Unified School District, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$1,030,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects
Nonspendable:				
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -
Stores inventories	374,026	-	-	-
Prepaid expenditures	-	-	-	-
Total Nonspendable	<u>399,026</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted				
Legally restricted programs	7,935,302	-	-	-
Capital projects	-	21,211,405	6,546,650	-
Debt service	-	-	-	-
Total Restricted	<u>7,935,302</u>	<u>21,211,405</u>	<u>6,546,650</u>	<u>-</u>
Committed				
Adult education program	-	-	-	-
Supplemental concentration	3,997,150	-	-	-
Instructional materials/Technology	11,345,513	-	-	-
Total Committed	<u>15,342,663</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned				
OPEB liability	1,700,000	-	-	-
Site carryover	978,446	-	-	-
Other assignments	-	-	-	24,217,293
Total Assigned	<u>2,678,446</u>	<u>-</u>	<u>-</u>	<u>24,217,293</u>
Unassigned				
Economic uncertainties	1,540,397	-	-	-
Remaining unassigned	18,330,230	-	-	-
Total Unassigned	<u>19,870,627</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$46,226,064</u>	<u>\$21,211,405</u>	<u>\$ 6,546,650</u>	<u>\$ 24,217,293</u>

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
\$ -	\$ 165,000	\$ 190,000
-	327,428	701,454
-	22,631	22,631
-	515,059	914,085
-	837,250	8,772,552
-	200,800	27,958,855
32,564,322	6,234	32,570,556
32,564,322	1,044,284	69,301,963
-	97,958	97,958
-	-	3,997,150
-	-	11,345,513
-	97,958	15,440,621
-	-	1,700,000
-	-	978,446
-	11,844,035	36,061,328
-	11,844,035	38,739,774
-	-	1,540,397
-	(668,833)	17,661,397
-	(668,833)	19,201,794
\$ 32,564,322	\$ 12,832,503	\$ 143,598,237

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance through Riverside Schools' Insurance Authority and Southern California Regional Liability Excess Fund Joint Powers Authorities for first party damage with coverage up to a maximum of \$250 million, subject to various policy sublimits generally ranging from \$500 to \$100 million and Member Retained Limits ranging from \$250 to \$5,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence with excess liability coverage up to \$25 million per occurrence and \$60 million aggregate, all subject to a \$50,000 Member Retained Limit per occurrence and a self-insured retention level of \$5,000. The District self-insures workers' compensation coverage up to \$600,000 per occurrence with excess coverage up to \$50,000,000. Employee health benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, June 30, 2016	\$ 13,103,145
Claims and changes in estimates	(1,179,781)
Claims payments	<u>1,645,342</u>
Liability Balance, June 30, 2017	13,568,706
Claims and changes in estimates	(2,591,123)
Claims payments	<u>2,591,123</u>
Liability Balance, June 30, 2018	<u>\$ 13,568,706</u>
Assets available to pay claims at June 30, 2018	<u>\$ 17,961,030</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$242,655,747	\$79,646,484	\$15,546,660	\$26,840,740
CalPERS	94,976,673	30,438,804	1,381,302	18,912,475
Total	<u>\$ 337,632,420</u>	<u>\$ 110,085,288</u>	<u>\$ 16,927,962</u>	<u>\$ 45,753,215</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$20,785,905.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$242,655,747
State's proportionate share of the net pension liability associated with the District	<u>143,553,090</u>
Total	<u>\$ 386,208,837</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.2624 percent and 0.2700 percent, respectively, resulting in a net decrease in the proportionate share of 0.0076 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$26,840,740. In addition, the District recognized pension expense and revenue of \$14,449,997 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 20,785,905	\$ -
Net change in proportionate share of net pension liability	13,008,404	4,851,754
Differences between projected and actual earnings on pension plan investments	-	6,462,599
Differences between expected and actual experience in the measurement of the total pension liability	897,364	4,232,307
Changes of assumptions	44,954,811	-
Total	<u>\$ 79,646,484</u>	<u>\$ 15,546,660</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ (5,372,599)
2020	4,065,471
2021	586,217
2022	(5,741,688)
Total	<u>\$ (6,462,599)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, the differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ 8,728,763
2020	8,728,763
2021	8,728,763
2022	8,728,764
2023	8,028,064
Thereafter	6,833,401
Total	<u>\$ 49,776,518</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

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, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

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

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 356,295,673
Current discount rate (7.10%)	242,655,747
1% increase (8.10%)	150,429,246

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$8,117,506.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$94,976,673. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.3978 percent and 0.4000 percent, respectively, resulting in a net decrease in the proportionate share of 0.0022 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$18,912,475. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 8,117,506	\$ -
Net change in proportionate share of net pension liability	1,760,296	263,069
Difference between projected and actual earnings on pension plan investments	3,285,543	-
Differences between expected and actual experience in the measurement of the total pension liability	3,402,622	-
Changes of assumptions	13,872,837	1,118,233
Total	<u>\$ 30,438,804</u>	<u>\$ 1,381,302</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ (89,027)
2020	3,790,804
2021	1,382,928
2022	(1,799,162)
Total	<u>\$ 3,285,543</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ 6,572,469
2020	6,365,747
2021	4,716,237
Total	<u>\$ 17,654,453</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 139,741,121
Current discount rate (7.15%)	94,976,673
1% increase (8.15%)	57,840,815

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$11,673,934 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Oliphant Elementary School	\$ 3,358,077	2019
Indio High School	575,661	2018
Hoover Elementary School	119,071	2018
La Quinta Middle School	1,477,873	2019
Energy Program	290	2018
Roosevelt Seismic	126,290	2020
Madison Modernization	685,623	2020
Indio Middle Modernization	1,279,100	2020
Kennedy Modernization	1,074,467	2020
Desert Educational Center North	634,940	2019
Palm Desert High School CTE Improvements	58,687	2019
Amistad CTE Improvements	212,165	2019
Shadow Hills CTE Improvements	16,699	2019
	\$ 9,618,943	

NOTE 15 - PARTICIPATION IN JOINT POWER AUTHORITIES

The District is a member of the Riverside Schools' Insurance Authority (RSIA) joint powers authorities (JPA's). The District pays an annual premium to each entity for its property liability, and health and welfare coverage, respectively. The relationships between the District, the pools, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of \$1,925,912 to RSIA for its property liability, and health and welfare coverage.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

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

Net Position - Beginning	\$ 426,886,558
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	<u>(41,120,178)</u>
Net Position - Beginning as Restated	<u>\$ 385,766,380</u>

REQUIRED SUPPLEMENTARY INFORMATION

DESERT SANDS UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 245,451,166	\$ 246,084,136	\$ 245,945,081	\$ (139,055)
Federal sources	16,483,210	18,527,216	16,601,854	(1,925,362)
Other State sources	24,308,840	30,622,170	30,096,413	(525,757)
Other local sources	37,971,584	38,071,760	39,883,113	1,811,353
Total Revenues ¹	324,214,800	333,305,282	332,526,461	(778,821)
EXPENDITURES				
Current				
Certificated salaries	142,063,362	139,800,441	139,367,577	432,864
Classified salaries	48,313,784	48,995,027	50,097,344	(1,102,317)
Employee benefits	88,719,748	88,159,877	86,767,008	1,392,869
Books and supplies	13,972,816	21,877,325	12,940,522	8,936,803
Services and operating expenditures	22,137,332	25,731,995	24,334,119	1,397,876
Capital Outlay	2,411,539	2,796,692	-	2,796,692
Other outgo	2,043,700	2,020,467	1,915,828	104,639
Debt service				
Principal	-	-	2,434,511	(2,434,511)
Interest	-	-	310,544	(310,544)
Total Expenditures ¹	319,662,281	329,381,824	318,167,453	11,214,371
Excess (Deficiency) of Revenues Over Expenditures	4,552,519	3,923,458	14,359,008	10,435,550
Other Financing Uses				
Transfers out	10,705,310	8,664,583	(8,881,311)	(17,545,894)
NET CHANGE IN FUND BALANCE	15,257,829	12,588,041	5,477,697	(7,110,344)
Fund Balance - Beginning	40,748,367	40,748,367	40,748,367	-
Fund Balance - Ending	\$ 56,006,196	\$ 53,336,408	\$ 46,226,064	\$ (7,110,344)

¹ Due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 5,386,763
Interest	2,877,812
Benefit payments	<u>(3,486,584)</u>
Net change in total OPEB liability	4,777,991
Total OPEB liability - beginning	<u>74,855,872</u>
Total OPEB liability - ending	<u>\$ 79,633,863</u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The District's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.4750%</u>
District's proportionate share of the net OPEB liability	<u>\$ 1,998,501</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.2624%</u>	<u>0.2700%</u>	<u>0.2542%</u>
District's proportionate share of the net pension liability	<u>\$ 242,655,747</u>	<u>\$ 218,212,215</u>	<u>\$ 171,134,943</u>
State's proportionate share of the net pension liability associated with the District	<u>143,553,090</u>	<u>124,224,322</u>	<u>90,511,520</u>
Total	<u>\$ 386,208,837</u>	<u>\$ 342,436,537</u>	<u>\$ 261,646,463</u>
District's covered-employee payroll	<u>\$ 144,046,466</u>	<u>\$ 141,794,777</u>	<u>\$ 135,896,058</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>168.46%</u>	<u>153.89%</u>	<u>125.93%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.3978%</u>	<u>0.4000%</u>	<u>0.3785%</u>
District's proportionate share of the net pension liability	<u>\$ 94,976,673</u>	<u>\$ 79,000,395</u>	<u>\$ 55,797,106</u>
District's covered-employee payroll	<u>\$ 52,269,839</u>	<u>\$ 50,732,899</u>	<u>\$ 47,905,080</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>181.70%</u>	<u>155.72%</u>	<u>116.47%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

0.2427%

\$ 141,845,452

85,652,408

\$ 227,497,860

\$ 116,384,546

121.88%

77%

0.3740%

\$ 42,458,178

\$ 41,894,783

101.34%

83%

DESERT SANDS UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017	2016
CalSTRS			
Contractually required contribution	\$ 20,785,905	\$ 17,837,783	\$ 14,581,647
Contributions in relation to the contractually required contribution	<u>20,785,905</u>	<u>17,837,783</u>	<u>14,581,647</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 146,885,389</u>	<u>\$ 144,046,466</u>	<u>\$ 141,794,777</u>
Contributions as a percentage of covered-employee payroll	<u>14.15%</u>	<u>12.38%</u>	<u>10.28%</u>
CalPERS			
Contractually required contribution	\$ 8,117,506	\$ 7,045,785	\$ 5,676,752
Contributions in relation to the contractually required contribution	<u>8,117,506</u>	<u>7,045,785</u>	<u>5,676,752</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 54,773,530</u>	<u>\$ 52,269,839</u>	<u>\$ 50,732,899</u>
Contributions as a percentage of covered-employee payroll	<u>14.82%</u>	<u>13.48%</u>	<u>11.19%</u>

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2015

\$ 10,338,352

10,338,352

\$ -

\$ 135,896,058

7.61%

\$ 4,931,016

4,931,016

\$ -

\$ 47,905,080

10.29%

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – There were no changes of assumptions since the previous valuation.

Schedule of District Contributions for OPEB

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

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

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

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

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amount Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Indian Education - Grants to Local Educational Agencies	84.060	10011	\$ 21,669	\$ -
Carl D. Perkins Vocational and Technical Education Act of 1998				
Secondary Education	84.048	14894	220,191	-
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	7,361,731	74,061
Title I, Part C - Migrant Ed Cluster				
Title I, Part C - Migrant Ed Regular Program	84.011	14326	91,837	-
Title I, Part C - Migrant Ed Summer Program	84.011	10005	56,125	-
Total Title I, Part C - Migrant Ed Cluster			<u>147,962</u>	<u>-</u>
Title I, Part G - Advanced Placement (AP) Test Fee				
Reimbursement Program	84.330B	14831	14,772	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	898,468	39,126
Title III Cluster				
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	689,501	-
Title III - Immigrant Education Program	84.365	15146	31,779	-
Total Title III Cluster			<u>721,280</u>	<u>-</u>
Title X, McKinney - Vento Homeless Children Assistance				
Grants	84.196	14332	1,040	-
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,161,407	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	7,077	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	77,713	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	290,365	-
Mental Health Allocation Plan, Part B, Section 611	84.027A	15197	194,634	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	805	-
Total Special Education Cluster			<u>4,732,001</u>	<u>-</u>
Total U.S. Department of Education			<u>14,119,114</u>	<u>113,187</u>

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amount Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Forest Reserve	10.665	10044	\$ 7,490	\$ -
Passed through CDE:				
Child Nutrition Cluster:				
Basic School Breakfast Program	10.553	13390	25,950	-
Especially Needy Breakfast	10.553	13526	2,120,463	-
National School Lunch Program	10.555	13391	7,673,513	-
Meal Supplement	10.555	13396	212,522	-
Food Distribution	10.555	13524	924,718	-
Total Child Nutrition Cluster			<u>10,957,166</u>	<u>-</u>
Child and Adult Care Food Program	10.558	13393	232,109	-
Total U.S. Department of Agriculture			<u>11,196,765</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	492,089	-
Passed through Riverside County Office of Education:				
Medical Administrative Activities Program	93.778	10060	57,173	-
Total Medi-Cal Assistance Program			<u>549,262</u>	<u>-</u>
Passed through Riverside County Office of Education:				
Head Start	93.600	10016	2,123,990	-
Total U.S. Department of Health and Human Services			<u>2,673,252</u>	<u>-</u>
Total Federal Programs			<u>\$ 27,989,131</u>	<u>\$ 113,187</u>

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The Desert Sands Unified School District was established July 1, 1966, and consists of an area comprising approximately 752 square miles. The District operates nineteen elementary schools, six middle schools, four high schools, two continuation high schools, one alternative education school, and two charter schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Donald B. Griffith	President	2018
Mr. Gary Tomak	Vice President/Clerk	2020
Ms. Wendy Jonathan	Member	2020
Ms. Linda Porras	Member	2020
Mr. Michael Duran	Member	2018

ADMINISTRATION

Mr. Scott Bailey	Superintendent
Dr. James Novak	Assistant Superintendent, Business Services
Mr. Daniel Miller	Assistant Superintendent, Educational Services
Donna Salazar, Ed.D.	Assistant Superintendent, Personnel Services
Ms. Laura Fisher	Assistant Superintendent, Student Support Services

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,259.94	7,278.39
Fourth through sixth	5,519.03	5,477.56
Seventh and eighth	3,464.16	3,449.97
Ninth through twelfth	8,788.65	8,658.56
Total Regular ADA	<u>25,031.78</u>	<u>24,864.48</u>
Extended Year Special Education		
Transitional kindergarten through third	8.95	8.95
Fourth through sixth	7.55	7.55
Seventh and eighth	1.42	1.42
Ninth through twelfth	0.19	0.19
Total Extended Year Special Education	<u>18.11</u>	<u>18.11</u>
Special Education, Nonpublic, Nonsectarian Schools		
Ninth through twelfth	0.31	0.22
Total Special Education, Nonpublic, Nonsectarian Schools	<u>0.31</u>	<u>0.22</u>
Total ADA	<u>25,050.20</u>	<u>24,882.81</u>
GEORGE WASHINGTON CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	544.57	543.34
Fourth through sixth	251.69	248.74
Total Regular ADA	<u>796.26</u>	<u>792.08</u>
GEORGE WASHINGTON CHARTER SCHOOL		
Classroom based ADA		
Transitional kindergarten through third	541.69	541.78
Fourth through sixth	249.00	247.24
Total Classroom Based ADA	<u>790.69</u>	<u>789.02</u>
PALM DESERT CHARTER MIDDLE SCHOOL		
Regular ADA		
Fourth through sixth	454.82	453.45
Seventh and eighth	894.07	891.10
Total Regular ADA	<u>1,348.89</u>	<u>1,344.55</u>
PALM DESERT CHARTER MIDDLE SCHOOL		
Classroom based ADA		
Fourth through sixth	454.00	451.86
Seventh and eighth	891.43	887.66
Total Classroom Based ADA	<u>1,345.43</u>	<u>1,339.52</u>

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018**

Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	37,156	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,190	180	N/A	Complied
Grade 2		53,190	180	N/A	Complied
Grade 3		53,190	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,560	180	N/A	Complied
Grade 5		56,560	180	N/A	Complied
Grade 6		59,522	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,522	180	N/A	Complied
Grade 8		59,522	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,812	180	N/A	Complied
Grade 10		66,812	180	N/A	Complied
Grade 11		66,812	180	N/A	Complied
Grade 12		66,812	180	N/A	Complied

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

George Washington Charter School

<u>Grade Level</u>	<u>1986-87</u>	<u>2017-18</u>	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	36,000	37,156	175	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,375	175	N/A	Complied
Grade 2		53,375	175	N/A	Complied
Grade 3		53,375	175	N/A	Complied
Grades 4 - 5	54,000				
Grade 4		56,560	175	N/A	Complied
Grade 5		56,560	175	N/A	Complied

Palm Desert Charter Middle School

<u>Grade Level</u>	<u>1986-87</u>	<u>2017-18</u>	<u>Number of Days</u>		<u>Status</u>
	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grade 6	54,000	59,978	176	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,978	176	N/A	Complied
Grade 8		59,978	176	N/A	Complied

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Summarized below is the fund balance reconciliation between the Annual Financial and the fund financial statements.

	<u>Cafeteria Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 85,098
Decrease in:	
Inventory	<u>(318,774)</u>
Balance, June 30, 2018, Audited Financial Statement	<u><u>\$ (233,676)</u></u>

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues	\$ 343,859,798	\$ 332,526,461	\$ 323,573,994	\$ 312,271,547
Total Revenues and Other Sources	343,859,798	332,526,461	323,573,994	312,271,547
Expenditures	336,762,838	318,167,453	312,894,191	285,649,775
Other uses and transfers out	8,595,689	8,881,311	12,005,915	11,721,352
Total Expenditures and Other Uses	345,358,527	327,048,764	324,900,106	297,371,127
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (1,498,729)</u>	<u>\$ 5,477,697</u>	<u>\$ (1,326,112)</u>	<u>\$ 14,900,420</u>
ENDING FUND BALANCE	<u>\$ 44,709,183</u>	<u>\$ 46,207,912</u>	<u>\$ 40,730,215</u>	<u>\$ 42,056,327</u>
AVAILABLE RESERVES²	<u>\$ 20,887,536</u>	<u>\$ 19,870,627</u>	<u>\$ 16,842,664</u>	<u>\$ 14,876,992</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>6.05%</u>	<u>6.08%</u>	<u>5.35%</u>	<u>5.14%</u>
LONG-TERM OBLIGATIONS⁴	<u>N/A</u>	<u>\$475,111,242</u>	<u>\$ 504,012,195</u>	<u>\$ 481,737,387</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2³	<u>24,875</u>	<u>25,050</u>	<u>25,436</u>	<u>25,198</u>

The General Fund balance has increased by \$4,151,585 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$1,498,729 (3.24 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have decreased by \$6,626,145 over the past two years.

Average daily attendance has decreased by 148 over the past two years. Additional decline of 175 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty contained within the General Fund and Special Reserve Fund for Other Than Capital Outlay Projects.

³ Excludes Charter Schools ADA.

⁴ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
George Washington Charter School (Charter No. 0052)	Yes
Palm Desert Charter Middle School (Charter No. 0974)	Yes

See accompanying note to supplementary information.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS				
Deposits and investments	\$ 13,926,567	\$ 413,481	\$ 247,779	\$ 1,588,428
Receivables	273,299	1,968	59,913	560,553
Due from other funds	1,291,507	-	349,233	330,303
Prepaid expenditures	-	-	-	22,631
Stores inventories	-	-	-	327,428
Total Assets	\$ 15,491,373	\$ 415,449	\$ 656,925	\$ 2,829,343
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 255,507	\$ 118,734	\$ 12,841	\$ 25,464
Due to other funds	2,587,787	666	618,862	3,037,555
Unearned revenue	-	-	25,107	-
Total Liabilities	2,843,294	119,400	656,810	3,063,019
Fund Balances:				
Nonspendable	165,000	-	-	350,059
Restricted	639,044	198,091	115	-
Committed	-	97,958	-	-
Assigned	11,844,035	-	-	-
Unassigned	-	-	-	(583,735)
Total Fund Balances	12,648,079	296,049	115	(233,676)
Total Liabilities and Fund Balances	\$ 15,491,373	\$ 415,449	\$ 656,925	\$ 2,829,343

See accompanying note to supplementary information

Capital Project Fund for Blended Component Units	Building Corporation Fund	Total Non-Major Governmental Funds
\$ 200,029	\$ 6,234	\$ 16,382,518
771	-	896,504
-	-	1,971,043
-	-	22,631
-	-	327,428
<u>\$ 200,800</u>	<u>\$ 6,234</u>	<u>\$ 19,600,124</u>
\$ -	\$ -	\$ 412,546
-	-	6,244,870
-	-	25,107
<u>-</u>	<u>-</u>	<u>6,682,523</u>
-	-	515,059
200,800	6,234	1,044,284
-	-	97,958
-	-	11,844,035
-	-	(583,735)
<u>200,800</u>	<u>6,234</u>	<u>12,917,601</u>
<u>\$ 200,800</u>	<u>\$ 6,234</u>	<u>\$ 19,600,124</u>

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES				
Local Control Funding Formula	\$ 17,153,701	\$ -	\$ -	\$ -
Federal sources	106,769	-	-	11,189,275
Other State sources	2,339,945	330,604	1,251,702	739,064
Other local sources	1,207,479	29,527	9,410	2,318,147
Total Revenues	<u>20,807,894</u>	<u>360,131</u>	<u>1,261,112</u>	<u>14,246,486</u>
EXPENDITURES				
Current				
Instruction	14,030,423	230,329	995,697	-
Instruction-related activities:				
Supervision of instruction	353	-	84,987	-
Instructional library, media, and technology	234,915	-	-	-
School site administration	2,081,919	-	-	-
Pupil services:				
Home-to school transportation	373,277	-	-	-
Food services	-	-	20,948	14,999,901
All other pupil services	423,031	110,926	112,273	-
Administration:				
Data processing	381,517	-	-	-
All other administration	513,261	4,877	55,229	-
Plant services	1,016,298	5,824	45,479	-
Enterprise services	-	-	-	73,748
Facility acquisition and construction	830,382	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>19,885,376</u>	<u>351,956</u>	<u>1,314,613</u>	<u>15,073,649</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>922,518</u>	<u>8,175</u>	<u>(53,501)</u>	<u>(827,163)</u>
OTHER FINANCING SOURCES				
Transfers in	78,988	-	53,616	204,126
NET CHANGE IN FUND BALANCES	1,001,506	8,175	115	(623,037)
Fund Balances - Beginning	11,646,573	287,874	-	389,361
Fund Balances - Ending	<u>\$ 12,648,079</u>	<u>\$ 296,049</u>	<u>\$ 115</u>	<u>\$ (233,676)</u>

See accompanying note to supplementary information.

County School Facilities Fund	Capital Project Fund for Blended Component Units	Building Corporation Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 17,153,701
-	-	-	11,296,044
-	-	-	4,661,315
3	81,481	3,273	3,649,320
3	81,481	3,273	36,760,380
-	-	-	15,256,449
-	-	-	85,340
-	-	-	234,915
-	-	-	2,081,919
-	-	-	373,277
-	-	-	15,020,849
-	-	-	646,230
-	-	-	381,517
-	-	-	573,367
-	-	-	1,067,601
-	-	-	73,748
3	-	-	830,385
-	-	6,255,000	6,255,000
-	-	2,295,431	2,295,431
3	-	8,550,431	45,176,028
-	81,481	(8,547,158)	(8,415,648)
-	-	7,135,431	7,472,161
-	81,481	(1,411,727)	(943,487)
-	119,319	1,417,961	13,861,088
\$ -	\$ 200,800	\$ 6,234	\$ 12,917,601

DESERT SANDS UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 27,897,898
Medi-Cal Billing Option	93.778	<u>91,233</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 27,989,131</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

DESERT SANDS UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206 and *Education Code* Sections 47612 and 47612.5 for the Charter Schools.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201 and *Education Code* Section 47612.5 for the Charter Schools.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actuals Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Desert Sands Unified School District
La Quinta, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Desert Sands Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Desert Sands Unified School District's basic financial statements, and have issued our report thereon dated November 2, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies as item 2018-001.

Compliance and Other Matters

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

Desert Sands Unified School District's Response to Finding

Desert Sands Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Desert Sands Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 2, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Desert Sands Unified School District
La Quinta, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Desert Sands Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 2, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Desert Sands Unified School District
La Quinta, California

Report on State Compliance

We have audited Desert Sands Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Desert Sands Unified School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Desert Sands Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Desert Sands Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Desert Sands Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Desert Sands Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Desert Sands Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform any procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The District did not have more than 20 percent ADA generated through non-classroom based instruction through the Charter School; therefore, we did not perform any procedures related to the Determination of Funding for Non-Classroom Based Instruction.

The District does not participate in the Charter School Facility Grant Program; therefore, we did not perform any procedures for the Charter School Facility Grant Program.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

November 2, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic Grants Low Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 839,674</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
---	-------------------

DESERT SANDS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

The following finding represents significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2018-001 30000 - Internal Control - Inventory (Cafeteria Fund)

Significant deficiency

Criteria or Specific Requirements

Industry standards and best business practices related to accounting and internal control require that an entity adopt, implement, and monitor procedures that will allow for accurate reporting of financial information to management and those charged with governance related to the handling and monitoring of inventory balance.

Condition

In reviewing the District's cafeteria year-end inventory listing, it was noted that the ending inventory balance was not reported accurately. The lack of proper monitoring and monthly physical counts resulted in the overstatement of the year-end inventory balance, as well as the overall fund balance.

Questioned Costs

There were no questioned costs associated with the condition found.

Context

The conditions identified were determined through review of the District cafeteria financial statements, fund balance, and inventory balance.

Effect

The conditions identified may result in under/over statement of the cafeteria fund balance.

Cause

It appears that the condition materialized due to the lack of proper internal control over the monitoring and recording of year-end inventory balances.

DESERT SANDS UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Recommendation

We recommend that the District's management review its procedures relating to the cafeteria's inventory and implement appropriate procedures to ensure accurate inventory balances are reported on an annual basis.

Corrective Action Plan

The District will begin performing a monthly cafeteria inventory count to ensure the accuracy of the inventory balance reported.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

DESERT SANDS UNIFIED SCHOOL DISTRICT

**SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no audit findings reported in the prior year's schedule of financial statement findings.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE FOR THE BONDS

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Desert Sands Unified School District (the “District”) in connection with the issuance of \$ _____ of the District’s Election of 2014 General Obligation Bonds, Series 2019 (the “Bonds”). The Bonds are being issued pursuant to a resolution of the District dated January 15, 2019. 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 in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean initially Fieldman, Rolapp & Associates, Inc., or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

“Financial Obligation” means: (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Repository consistent with the Rule.

“Holders” shall mean the registered owners of the Bonds.

“Listed Events” shall mean any of the events listed in Sections 5(a) or 5(b) of this Disclosure Certificate.

“Official Statement” means that certain official statement, dated _____, 2019, relating to the offering and sale of the Bonds.

“Participating Underwriter” shall mean RBC Capital Markets, LLC, as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean, the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org/>, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

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

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the 2018-19 Fiscal Year, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided to the Repository.

SECTION 4. Content and Form of Annual Reports. (a) The District’s Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

- (a) State funding received by the District for the last completed fiscal year;
- (b) Average daily attendance of the District for the last completed fiscal year;
- (c) Outstanding District indebtedness;
- (d) Summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the then-current fiscal year;
- (e) Assessed valuation of taxable property within the District for the current fiscal year; and
- (f) Secured tax levy collections and delinquencies within the District for the last completed fiscal year, except to the extent the Teeter Plan, as adopted by Riverside County, applies to both the 1% general purpose *ad valorem* property tax levy and to the tax levy for general obligation bonds of the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

(b) The Annual Report shall be filed in an electronic format, and accompanied by identifying information, prescribed by the Municipal Securities Rulemaking Board.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.
2. tender offers.
3. optional, contingent or unscheduled Bond calls.
4. defeasances.
5. rating changes.
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, adverse tax opinions or Notices of Proposed Issue (IRS Form 5701-TEB).
7. unscheduled draws on the debt service reserves reflecting financial difficulties.

8. unscheduled draws on credit enhancement reflecting financial difficulties.
9. substitution of the credit or liquidity providers or their failure to perform.
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation, any of which reflect financial difficulties.

11. bankruptcy, insolvency, receivership or similar event (within the meaning of the Rule) of the District. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(b) Pursuant to the provisions of this Section 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. non-payment related defaults.
2. modifications to rights of Bondholders.
3. unless described under Section 5(a)(5) above, material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
4. release, substitution or sale of property securing repayment of the Bonds.
5. 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.
6. appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.
7. incurrence of a Financial Obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation, any of which affect Bondowners.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) hereof would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a) or Section 5(b), as applicable.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a

change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolutions, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repository. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: _____, 2019

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____
Superintendent

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: DESERT SANDS UNIFIED SCHOOL DISTRICT

Name of Bond Issue: Election of 2014 General Obligation Bonds, Series 2019

Date of Issuance: _____, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

DESERT SANDS UNIFIED SCHOOL DISTRICT

By _____ [form only; no signature required]

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APPENDIX D

ECONOMIC AND DEMOGRAPHIC PROFILE OF THE CITIES OF INDIO, LA QUINTA AND PALM DESERT AND RIVERSIDE COUNTY

Approximately 72% of the District lies within the boundaries of the Cities of Indio (“Indio”), La Quinta (“La Quinta”) and Palm Desert (“Palm Desert,” and together with Indio and La Quinta, the “Cities”). The following information concerning the Cities and Riverside County (the “County”) is included only for the purpose of supplying general information thereof. The Bonds are not obligations of either the Cities or the County, and do not represent a lien or charge against any funds or property thereof. The following information is provided only to give prospective investors an overview of the general economic condition of the Cities, County and the State of California (the “State”).

General

The County is the fourth largest county in the State, encompassing approximately 7,243 square miles. It is located in the southern portion of the State and is bordered by San Bernardino County on the north, Los Angeles and Orange Counties on the west, the State of Arizona and the Colorado River on the east, and San Diego and Imperial Counties on the south. The County, incorporated in 1893, is a general law county with its seat located in the city of Riverside.

The City of Indio is located in the Coachella Valley, approximately 120 miles east of the City of Los Angeles. Initially a railroad town, Indio initially developed an agricultural economy and, more recently, has largely become a residential and recreational area. Indio operates under a city council-city manager form of government with five elected members of the city council that appoint a city manager and city attorney.

The City of La Quinta is surrounded by the Santa Rosa Mountains and located between the City of Indian Wells and Indio. La Quinta was incorporated on May 1, 1982, became a charter city in 1996 and has a Council-Manager form of government with the City Manager appointed by the City Council. The City Council is composed of five members elected at-large and serve four-year staggered terms, residents elect the Mayor and four Council members.

The City of Palm Desert borders Indio on its eastern side. The first development in the area was the result of an Army maintenance camp that quickly developed into a major shopping area. The Palm Desert area experienced rapid population growth from the 1980s through the 2000s. Palm Desert is a general law city with a five-member city council that appoints the mayor.

Population

The following table summarizes population estimates of the Cities, County and State for the past 10 years.

**POPULATION ESTIMATES
2009 through 2018
City of Indio, City of La Quinta, City of Palm Desert,
Riverside County and the State of California**

<u>Year</u> ⁽¹⁾	<u>City of Indio</u>	<u>City of La Quinta</u>	<u>City of Palm Desert</u>	<u>Riverside County</u>	<u>State of California</u>
2009	74,590	37,116	47,993	2,140,626	36,966,713
2010 ⁽²⁾	76,036	37,467	48,445	2,189,641	37,253,956
2011	76,849	38,003	49,249	2,212,675	37,529,913
2012	78,221	38,214	49,657	2,240,166	37,874,977
2013	81,441	38,430	50,014	2,265,789	38,234,391
2014	82,419	38,991	50,414	2,291,262	38,568,628
2015	84,009	39,323	50,683	2,317,895	38,912,464
2016	85,233	39,899	51,250	2,346,717	39,179,627
2017	86,632	40,605	52,058	2,382,640	39,500,973
2018	87,883	41,204	52,769	2,415,955	39,809,693

⁽¹⁾ As of January 1.

⁽²⁾ As of April 1.

Source: 2010: U.S. Department of Commerce, Bureau of the Census, for April 1. 2009, 2011-18 (2000 and 2010 Demographic Research Unit Benchmark): California Department of Finance for January 1.

Income

The following table shows per capita personal income for the County, State and the United States for the past 10 years.

**PER CAPITA PERSONAL INCOME
2007 through 2016
Riverside County, State of California, and United States**

<u>Year</u>	<u>Riverside County</u>	<u>State of California</u>	<u>United States</u>
2007	\$31,972	\$43,692	\$39,821
2008	31,932	44,162	41,082
2009	30,446	42,224	39,376
2010	30,380	43,317	40,277
2011	31,847	45,849	42,461
2012	32,301	48,369	44,282
2013	32,828	48,570	44,493
2014	34,044	51,344	46,494
2015	35,883	54,718	48,451
2016	36,782	56,374	49,246

Note: Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. Last updated: November 16, 2017 – new estimates for 2016; revised estimates for 2010-2015. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes the labor force, employment and unemployment figures for the past five years for the Cities, County, State and the United States.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
2013 through 2017⁽¹⁾
City of Indio, City of La Quinta, City of Palm Desert,
Riverside County and State of California

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment⁽²⁾</u>	<u>Unemployment⁽³⁾</u>	<u>Unemployment Rate (%)</u>
2013	City of Indio	36,900	33,000	3,900	10.7
	City of La Quinta	16,800	15,800	1,100	6.3
	City of Palm Desert	22,100	20,500	1,600	7.1
	Riverside County	996,400	897,700	98,700	9.9
	State of California	18,625,000	16,958,400	1,666,600	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	City of Indio	37,400	34,100	3,300	8.8
	City of La Quinta	17,200	16,300	900	5.2
	City of Palm Desert	22,500	21,200	1,300	5.8
	Riverside County	1,013,500	930,400	83,100	8.2
	State of California	18,758,400	17,351,300	1,407,100	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	City of Indio	38,200	35,500	2,800	7.2
	City of La Quinta	17,700	17,000	700	4.2
	City of Palm Desert	23,200	22,100	1,100	4.7
	Riverside County	1,035,700	966,300	69,400	6.7
	California	18,896,500	17,724,800	1,171,700	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
2016	City of Indio	38,800	36,300	2,500	6.6
	City of La Quinta	18,100	17,400	700	3.8
	City of Palm Desert	23,600	22,500	1,000	4.3
	Riverside County	1,052,600	988,200	64,500	6.1
	State of California	19,093,700	18,048,800	1,044,800	5.5
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	City of Indio	37,900	35,800	2,100	5.5
	City of La Quinta	17,500	16,700	800	4.3
	City of Palm Desert	22,900	22,100	800	3.4
	Riverside County	1,072,500	1,016,200	56,300	5.2
	State of California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

(2) Includes persons involved in labor-management trade disputes.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2017 Benchmark.

Industry

The County is a part of the Riverside-San Bernardino Metropolitan Statistical Area (“MSA”), which includes all of Riverside and San Bernardino Counties. The following table summarizes the annual average industry employment statistics for the Riverside-San Bernardino-Ontario MSA for years 2013 through 2017.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES 2013 through 2017

Riverside-San Bernardino-Ontario MSA

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Farm	14,500	14,400	14,800	14,600	14,400
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Wholesale Trade	56,400	58,900	61,600	62,800	63,700
Retail Trade	164,800	169,400	174,300	178,000	182,100
Transportation, Warehousing and Utilities	78,500	86,600	97,400	107,300	120,200
Information	11,500	11,300	11,400	11,500	11,300
Financial Activities	41,800	42,900	43,900	44,600	44,500
Professional and Business Services	131,900	138,700	147,400	145,000	147,200
Education and Health Services	187,600	194,800	205,100	214,300	224,800
Leisure and Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Government	<u>225,200</u>	<u>228,800</u>	<u>233,300</u>	<u>242,300</u>	<u>250,000</u>
Total All Industries	1,247,800	1,303,700	1,367,900	1,416,600	1,466,000

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.

Source: *State of California, Employment Development Department, Labor Market Information Division, Annual Average Labor Force and Industry Employment, March 2017 Benchmark.*

Principal Employers

The following tables show the principal employers in the County and Cities by number of employees.

PRINCIPAL EMPLOYERS

2017

Riverside County

<u>Employer Name</u>	<u>Number of Employees</u>
County of Riverside	22,538
University of California Riverside	8,686
March Air Reserve Base	8,500
Amazon	7,500
Kaiser Permanente Riverside Medical Center	5,739
Corona-Norco Unified School District	5,399
Riverside Unified School District	4,236
Pechanga Resort and Casino	4,000
Riverside University Health Care Systems	3,876
Eisenhower Medical Center	3,665

⁽¹⁾ For current information regarding the District’s employees, see “DESERT SANDS UNIFIED SCHOOL DISTRICT – Labor Relations” in the front part of this Official Statement.

Source: *County of Riverside Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2017.*

**PRINCIPAL EMPLOYERS
2017
City of Indio**

<u>Employer Name</u>	<u>Number of Employees</u>
Desert Sands Unified School District ⁽¹⁾	2,677
County of Riverside	1,211
Fantasy Springs Resort Casino	1,108
John F. Kennedy Memorial Hospital	750
Walmart Supercenter	258
City of Indio	233
Riverside Superior Court	172
Fiesta Ford Lincoln	142
Cardenas Market	132
Mathis Brothers	132

⁽¹⁾ For updated information regarding the District’s employee counts, see “DESERT SANDS UNIFIED SCHOOL DISTRICT – Labor Relations” in the front part of this Official Statement.

Source: City of Indio ‘Comprehensive Annual Financial Report’ for the year ending June 30, 2017.

**PRINCIPAL EMPLOYERS
2017
City of La Quinta**

<u>Employer Name</u>	<u>Number of Employees</u>
Desert Sands Unified School District ⁽¹⁾	2,677
La Quinta Resort and Club	1,450
Wal-Mart Super Center	340
Home Depot	198
Costco	180
Target	170
Lowe’s Home Improvement	140
Imperial Irrigation District	131
Rancho La Quinta	127
Traditions Golf Club	96

⁽¹⁾ For updated information regarding the District’s employee counts, see “DESERT SANDS UNIFIED SCHOOL DISTRICT – Labor Relations” in the front part of this Official Statement.

Source: City of La Quinta ‘Comprehensive Annual Financial Report’ for the year ending June 30, 2017.

**PRINCIPAL EMPLOYERS
2017
City of Palm Desert**

<u>Employer Name</u>	<u>Number of Employees</u>
JW Marriot-Desert Springs Resort & DS Villas	2,311
Universal Protection Services	1,500
Securitas-Security Service USA	700
Avida Caregivers	550
Organization of Legal Pro’s	501
Sunshine Landscape	500
Costco	421
Marriott Shadow Ridge	300
Bighorn Golf Club	293
Desert Arc	250

Source: City of Palm Desert ‘Comprehensive Annual Financial Report’ for the year ending June 30, 2017.

Taxable Sales

Summaries of annual taxable sales for the County and the Cities from 2012 through 2016 are shown in the following tables.

**ANNUAL TAXABLE SALES
2012 through 2016
Riverside County
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2012	34,683	\$20,016,668	48,316	\$28,096,009
2013	33,391	21,306,774	46,805	30,065,467
2014	34,910	22,646,343	48,453	32,035,687
2015	--	23,281,724	--	32,910,910
2016	--	24,002,136	--	34,231,144

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years. Data not available for 2017.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**ANNUAL TAXABLE SALES
2012 through 2016
City of Indio
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2012	2,206	\$606,582	2,740	\$724,256
2013	2,040	670,393	2,592	806,604
2014	2,067	729,652	2,626	882,079
2015	--	774,475	--	931,695
2016	--	810,098	--	986,137

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years. Data not available for 2017.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**ANNUAL TAXABLE SALES
2012 through 2016
City of La Quinta
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2012	937	\$638,047	1,294	\$710,127
2013	920	654,275	1,254	731,325
2014	933	659,883	1,274	744,038
2015	--	623,473	--	707,515
2016	--	631,678	--	724,252

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years. Data not available for 2017.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**ANNUAL TAXABLE SALES
2012 through 2016
City of Palm Desert
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Permits</u>	<u>Retail Stores Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Outlets Taxable Transactions</u>
2012	2,400	\$1,242,899	3,145	\$1,470,982
2013	2,257	1,283,310	3,001	1,530,512
2014	2,238	1,338,734	2,970	1,594,753
2015	--	1,317,128	--	1,580,448
2016	--	1,343,985	--	1,618,078

Note: Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry level data for 2015 are not comparable to that of prior years. Data not available for 2017.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

Construction Activity

The annual building permit valuations and number of permits for new dwelling units issued for the past five years for the County and Cities are shown in the following tables.

BUILDING PERMITS AND VALUATIONS 2013 through 2017 Riverside County (Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation (\$000):					
Residential	\$1,375,593	\$1,621,751	\$1,536,742	\$1,759,535	\$1,903,417
Non-residential	<u>873,977</u>	<u>814,990</u>	<u>911,465</u>	<u>1,346,020</u>	<u>1,433,691</u>
Total*	\$2,249,570	\$2,436,741	\$2,448,207	\$3,105,555	\$3,337,018
Residential Units:					
Single family	4,716	5,007	5,007	5,662	6,265
Multiple family	<u>1,427</u>	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>	<u>1,070</u>
Total	6,143	6,938	6,196	6,701	7,335

Note: Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS 2013 through 2017 City of Indio (Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation (\$000):					
Residential	\$66,127	\$90,669	\$48,928	\$43,614	\$74,812
Non-residential	<u>30,680</u>	<u>32,660</u>	<u>15,638</u>	<u>21,674</u>	<u>21,823</u>
Total*	\$96,807	\$123,329	\$64,566	\$65,288	\$96,635
Residential Units:					
Single family	348	516	282	242	361
Multiple family	<u>124</u>	<u>0</u>	<u>0</u>	<u>12</u>	<u>128</u>
Total	472	516	282	254	489

Note: Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
2013 through 2017
City of La Quinta
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation (\$000):					
Residential	\$34,030	\$69,420	\$52,105	\$37,691	\$40,215
Non-residential	<u>3,873</u>	<u>11,202</u>	<u>10,396</u>	<u>4,213</u>	<u>4,200</u>
Total*	\$37,903	\$80,622	\$62,501	\$41,904	\$44,415
Residential Units:					
Single family	117	177	155	102	115
Multiple family	<u>0</u>	<u>111</u>	<u>21</u>	<u>0</u>	<u>0</u>
Total	117	288	176	102	115

Note: Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
2013 through 2017
City of Palm Desert
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Valuation (\$000):					
Residential	\$68,339	\$110,638	\$61,642	\$87,609	\$63,734
Non-residential	<u>40,036</u>	<u>24,252</u>	<u>26,488</u>	<u>34,212</u>	<u>19,123</u>
Total*	\$108,375	\$134,890	\$88,130	\$121,821	\$82,857
Residential Units:					
Single family	137	199	103	77	83
Multiple family	<u>64</u>	<u>122</u>	<u>31</u>	<u>207</u>	<u>0</u>
Total	201	321	134	284	83

Note: Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

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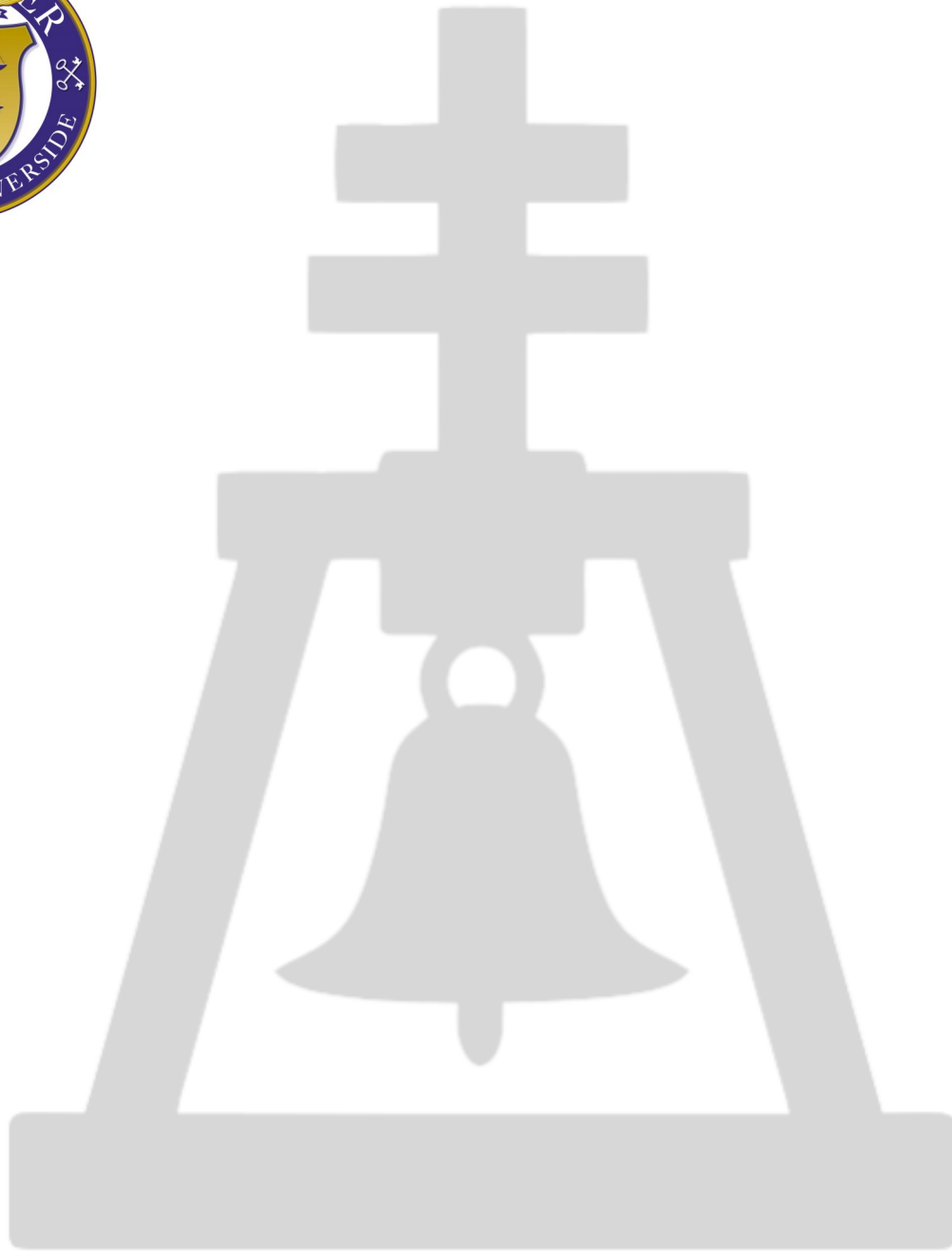
APPENDIX E

RIVERSIDE COUNTY INVESTMENT POOL

The following information concerning the Riverside County Investment Pool (the “Investment Pool”) has been provided by the Treasurer, and has not been confirmed or verified by the District, the Municipal Advisor or the Underwriter. The District, the Municipal Advisor and the Underwriter have not made an independent investigation of the investments in the Investment Pool and have made no assessment of the current County investment policy. The value of the various investments in the Investment Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Treasurer, with the consent of the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Investment Pool will not vary significantly from the values described herein. Finally, none of the District, the Municipal Advisor nor the Underwriter make any representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Additional information regarding the Investment Pool may be obtained from the Treasurer at <https://www.countytreasurer.org/>; however, the information presented on such website is not incorporated herein by any reference.

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County of Riverside

Treasurer's Pooled Investment Fund

December 2018

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Hot air balloons over Lake Skinner in Temecula, Southwest Riverside County, CA. Digital Image. NBC San Diego. <http://www.nbcsandiego.com/news/local/temecula-valley-2014-balloon-wine-festival-north-san-diego-261142951.html>

Treasurer's Pooled Investment Fund

Monthly Commentary

Government(s) Showdown, Stocks Go Down

Gridlock in the U.S. Federal Government, trade uncertainty, and fears of a global economic slowdown fueled a 2,400+ point drop in the Dow Jones Industrial Average stock index, marking an uncharacteristically volatile December for equity markets. Nevertheless, the U.S. economy continued its expansion in December.

The U.S. Federal Reserve Bank (FED) cited a solid economic backdrop when it raised rates by 25 basis points (bps) on December 19. Real GDP for 3Q18 was revised slightly downward from a seasonally adjusted annualized rate of 3.50% to a still strong 3.40%, consumer spending and job growth continue to expand strongly, the unemployment rate persists at 3.70%, and the housing sector continues to decelerate. The inflation rate for all goods and services has fallen in line with the core inflation rate (i.e. all goods and services minus food and energy) at 2.20%, which is broadly attributed to the recent plunge in global oil prices (see page 5).

In a strong economic environment, federal and corporate debt remain elevated. Federal debt as a percent of GDP crossed the 100% threshold for the first time in 3Q12, and sits at 104% as of 3Q18. Additionally, corporate debt-to-GDP persists above long-term trends. However, consumer debt-to-

GDP remains firmly below long-term trends ([Federal Reserve](#)).

The gridlock in Washington over the federal budget pushed the government into a shutdown on December 22, increasing fear over the debt ceiling deadline in March. Fears of a repeat of the 2011 debt-ceiling crisis resurface, when S&P downgraded the U.S. Federal Government's credit rating from AAA to AA+. No one knows for sure what will happen. The U.S. has never gone into default before, but the elevated uncertainty may contribute to a flight to quality in the fixed income markets.

Uncertainty in global trade persists. The U.K. and E.U. have yet to finalize an agreement regarding Brexit, and there is no telling if the matter will be resolved in a timely manner. At the G20 summit on December 1 in Argentina, the U.S. agreed to halt any escalation of tariffs until March 2. If no agreement is made by that date, then standing tariffs on \$200bn of Chinese goods may be raised from 10% to 25%. A resolution on either deal would be beneficial for global trade and, thus, for U.S. economic growth.

In our local economy, Riverside County's population rose by more than 27,000 people in 2018, making it number one in the state for population growth ([Press Enterprise](#)). Growth

in nonfarm jobs and the median sales price for single-family homes respectively indicate that the local job market and real estate sector are moderating in growth – mimicking trends statewide.

With December's 2,400+ point drop in the Dow Jones Industrial Average stock index, the Treasury bond market saw a very strong flight-to-quality rally. 2-year yields were driven down from 2.83% to 2.48%, while 5-year yields were driven down from 2.83% to 2.51%. To put this into perspective, for every \$100 million invested, a drop of 35 bps in interest would reduce interest income by \$29,166 per month for new investments made at the lower rate.

After raising rates by 25 bps in December, the Federal Reserve lowered expectations for the number of interest rate hikes in 2019, versus an earlier expectation of at least two more 25 basis point hikes during the year. The Treasurer's Pooled Investment Fund is well positioned to handle anticipated changes in markets, and especially to maintain its commitment to safety, liquidity, and yield.

Jon Christensen
Treasurer-Tax Collector

Capital Markets Team

Jon Christensen
Treasurer-Tax Collector

Giovane Pizano
Chief Investment Manager

Steve Faeth
Sr. Investment Manager

Isela Licea
Assistant Investment Manager

Jake Nieto
Administrative Services Assistant

Treasurer's Statement

The Treasurer's Pooled Investment Fund is comprised of contributions from the county, schools, special districts, and other discretionary depositors throughout the County of Riverside. The primary objective of the treasurer shall be to **safeguard the principal** of the funds under the treasurer's control, meet the **liquidity needs** of the depositor, and to maximize a **return on the funds** within the given parameters.

The Treasurer-Tax Collector and the Capital Markets team are committed to maintaining the highest credit ratings. The Treasurer's Pooled Investment Fund is currently rated **Aaa-bf** by **Moody's Investor Service** and **AA+/S1** by **Fitch Ratings**, two of the nation's most trusted bond credit rating services.

Since its inception, the Treasurer's Pooled Investment Fund has been in **full compliance** with the Treasurer's Statement of Investment Policy, which is more restrictive than California Government Code 53646.

6-Month Pool Performance

	Month End Market Value (\$)*	Month End Book Value (\$)	Paper Gain or Loss (\$)	Paper Gain or Loss (%)	Book Yield (%)	WAM (Yrs)
18-Dec	7,490,825,981.43	7,504,164,940.07	(13,338,958.64)	-0.17%	2.27	1.00
18-Nov	6,126,655,569.85	6,157,254,222.68	(30,598,652.83)	-0.50%	2.18	1.16
18-Oct	5,810,376,697.47	5,848,258,037.08	(38,077,575.20)	-0.66%	2.09	1.16
18-Sep	6,010,617,673.04	6,046,972,952.10	(36,355,279.06)	-0.60%	2.01	1.16
18-Aug	5,911,098,915.70	5,941,969,016.43	(30,870,100.73)	-0.52%	1.96	1.20
18-Jul	5,978,974,759.31	6,015,426,250.42	(36,451,491.11)	-0.61%	1.92	1.24

*Market values do not include accrued interest.

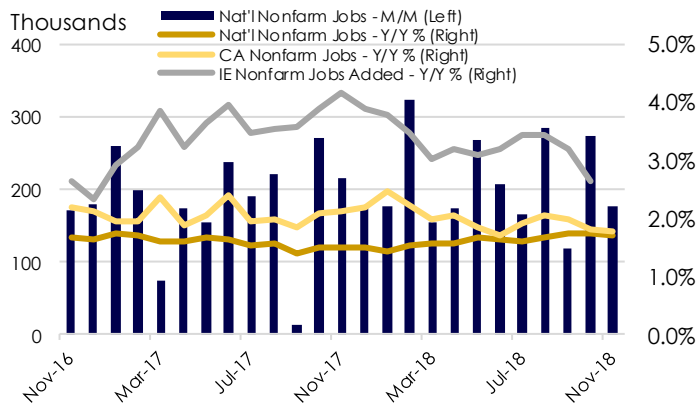
Economy

National Economy

While U.S. economic growth slows, consumer spending endures as key driver for the economy. [Bloomberg; 01/03/2019]

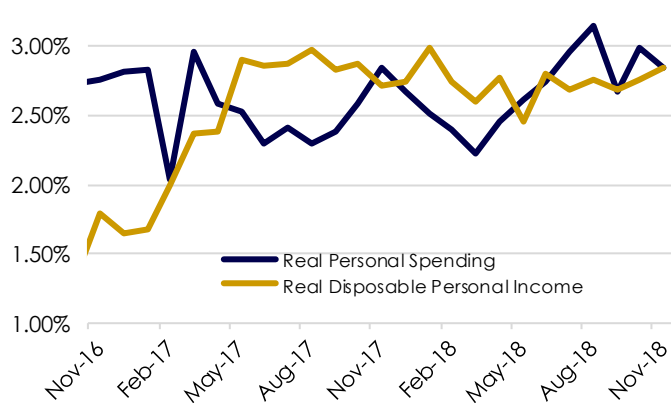
- Nonfarm payrolls were weaker than expected in November, but annual growth remains steady. [FRED; 01/07/2019]
- On faltering price of oil, the total inflation rate has fallen and real wages have received a boost. [Reuters; 01/07/2019]
- The Federal deficit for 2018, at 4.6% of GDP, is "unprecedented in current economic conditions." [CFRB; 01/07/2019]

Nonfarm Payrolls



*Note: 'IE' refers to the Riverside-San Bernardino metropolitan area.

U.S. Real Personal Spending and Real Personal Income - Y/Y SAAR

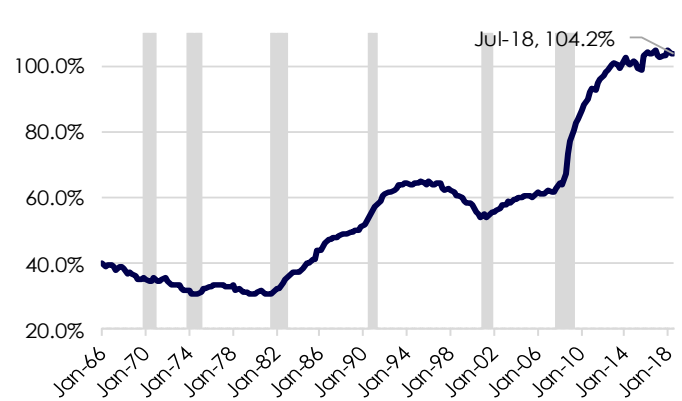


State Economy

California state government is expected to have a \$29bn surplus in the 2019-2020 fiscal year. [PolitiFact; 01/07/2019]

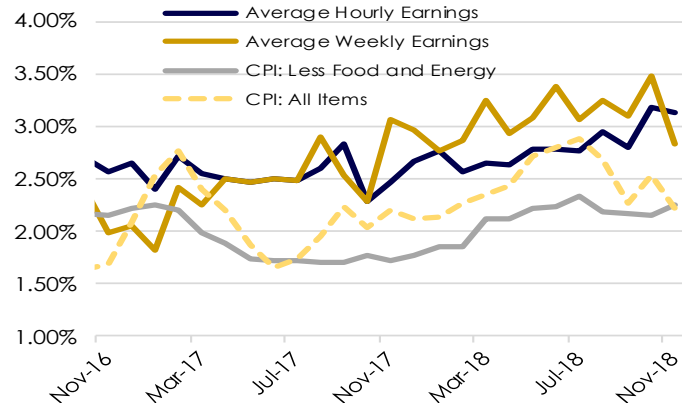
- The CA Legislative Analyst's Office expects annual growth for nonfarm payrolls to decline to 1% by 2020. [LAO; 01/07/2019]
- California added 214,625 residents in the year ended June 30, 2018. Riverside County added 27,386 residents, leading all CA counties in population growth. [Press Enterprise; 12/28/2018].
- Despite recent moderation, job growth in the Inland Empire exceeds state and national rates. [FRED; 01/07/2019]

U.S. Total Public Debt as a Percent of GDP



*Note: Shaded areas indicate U.S. recessions.

U.S. Earnings and Inflation



Key Economic Indicators

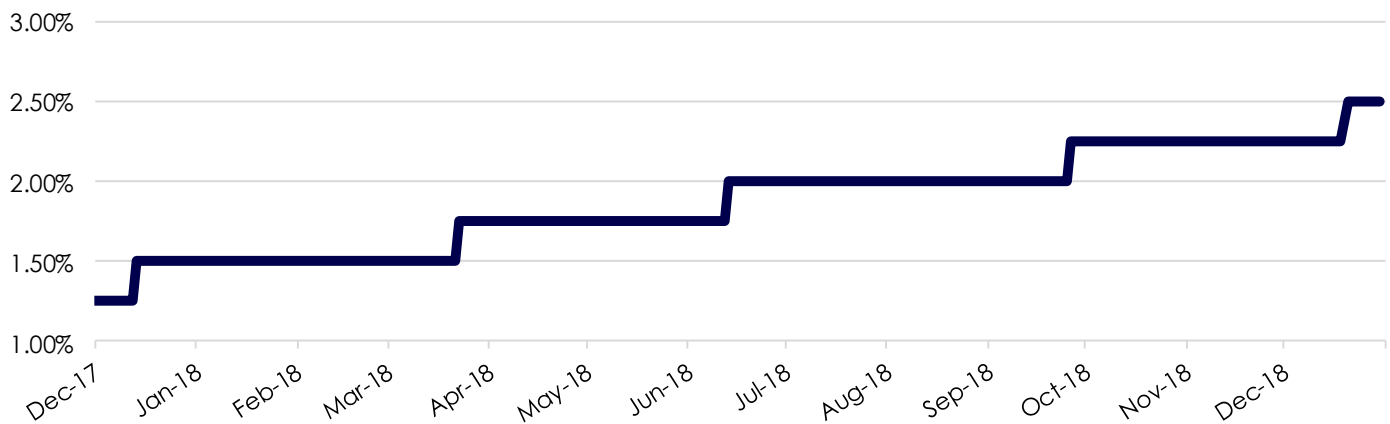
Release Date	Indicator	Actual	Consensus	Difference
12/21/2018	Real GDP - Q/Q Change - SAAR - 3Q18 (3rd estimate)	3.40%	3.50%	-0.10%
12/07/2018	Unemployment Rate - Seasonally Adjusted	3.70%	3.70%	0.00%
12/07/2018	Non-Farm Payrolls - M/M Change	155,000	190,000	-35,000
12/12/2018	CPI - Y/Y Change	2.20%	2.20%	0.00%
12/12/2018	CPI Ex Food and Energy - Y/Y Change	2.20%	2.20%	0.00%
12/06/2018	Non-Manufacturing Index (> 50 indicates growth)	60.7	59.0	1.70
12/19/2018	Existing Home Sales - SAAR - Millions of Units	5.32	5.19	0.13
12/06/2018	Factory Orders - M/M Change	-2.10%	-2.00%	-0.10%
12/21/2018	Durable Goods Orders - New Orders - M/M Change	0.80%	1.40%	-0.60%

Market Data

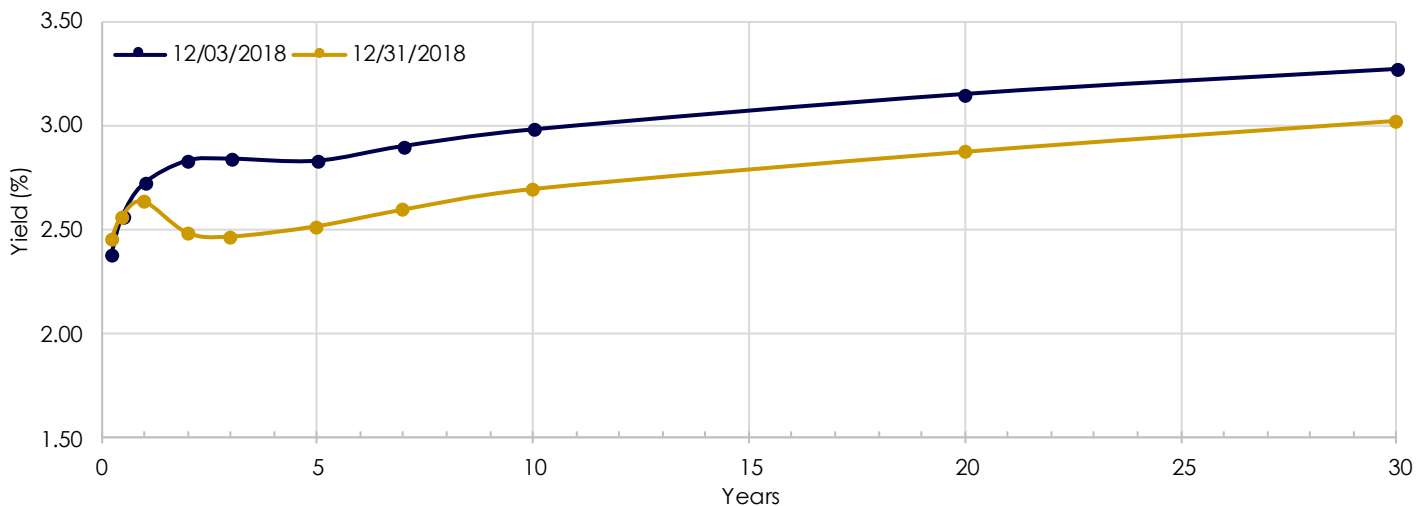
FOMC Meeting 12/19/2018

- The FOMC stated that data received since their last meeting in November “indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate.”
- The Federal Open Market Committee raised the Fed Funds Target Rate to 2.25—2.50% from 2.00—2.25%.
- “The Committee judges that risks to the economic outlook are roughly balanced, but will continue to monitor global economic and financial developments and assess their implications for the economic outlook,” stated the FOMC in their December 19 press release.

Fed Funds Target Rate (Upper Limit)



U.S. Treasury Curve

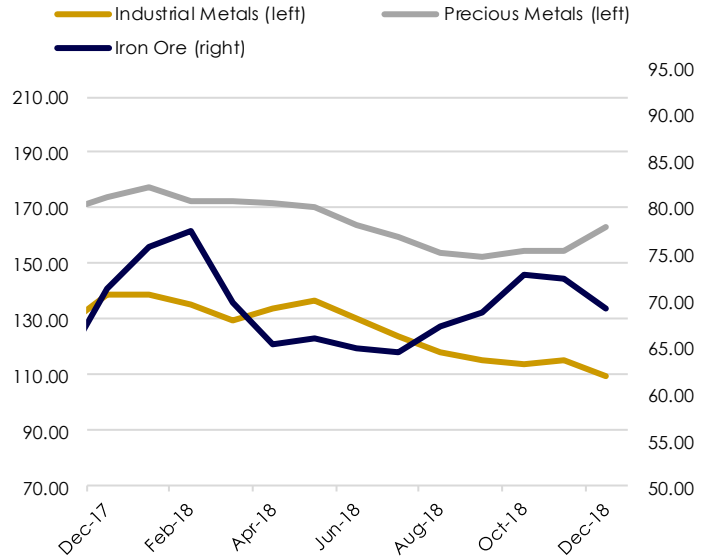
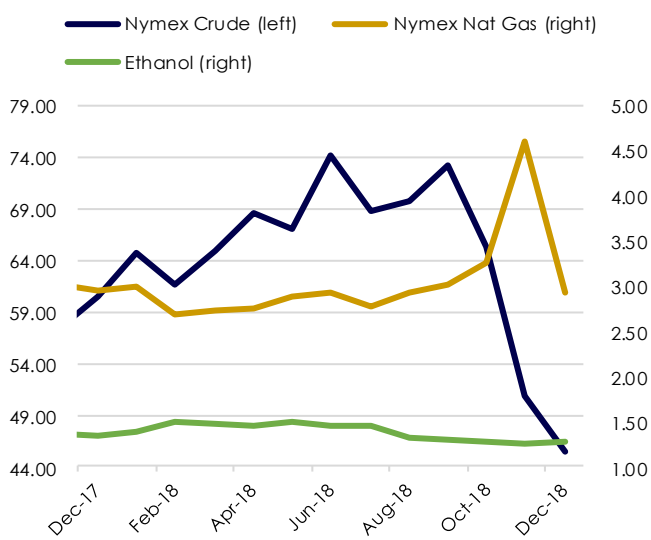


Treasury Curve Differentials	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr	30 Yr
12/31/2018 - 12/03/2018	0.07	0.00	-0.09	-0.35	-0.38	-0.32	-0.29	-0.25
12/31/2018	2.45	2.56	2.63	2.48	2.46	2.51	2.69	3.02
12/03/2018	2.38	2.56	2.72	2.83	2.84	2.83	2.98	3.27

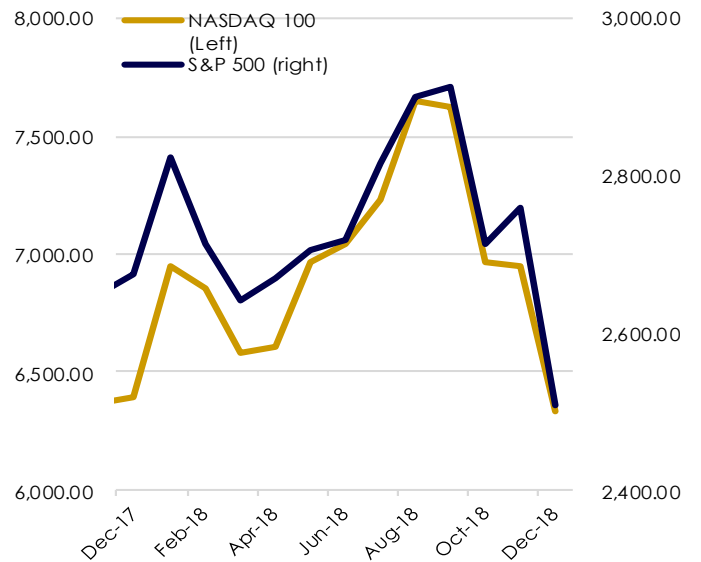
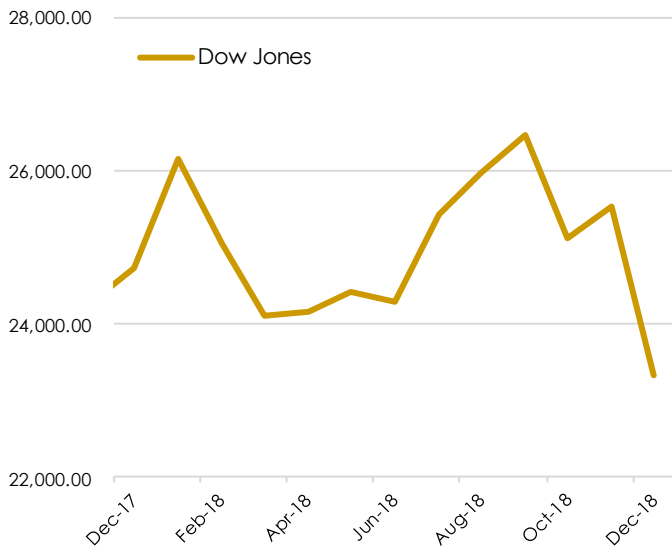
The US Treasury Curve and its forecasted values are subject to frequent change and will be updated monthly with each issued TPIF report.

Market Data cont'd

Commodities



Stocks



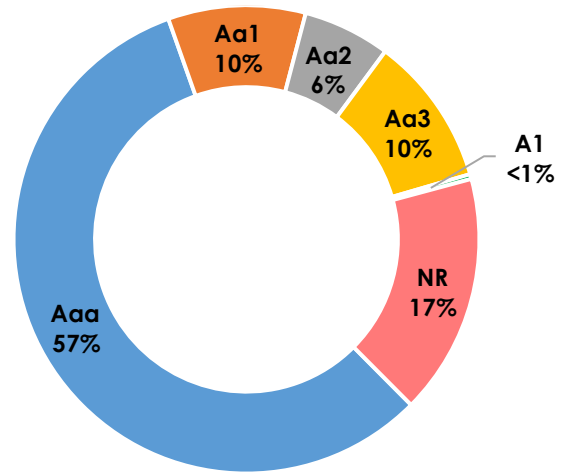
* Values listed on this page are in US dollars and are based on the final business day of each month.

Portfolio Data

The County of Riverside's Treasurer's Pooled Investment Fund is currently rated **AAA-bf** by **Moody's Investor Service** and **AAAf/S1** by **Fitch Ratings**.

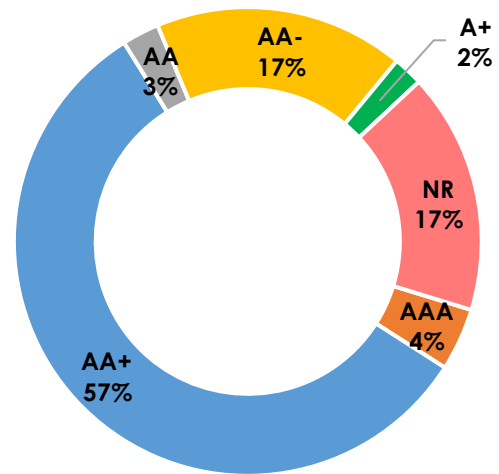
Moody's Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
Aaa	4,281,317.18	99.60%	57.05%	2.13%
Aa1	716,741.29	100.13%	9.55%	2.52%
Aa2	454,875.83	100.11%	6.06%	2.51%
Aa3	776,106.14	100.32%	10.34%	2.53%
A1	25,000.00	100.00%	0.33%	2.51%
NR	1,250,124.50	100.00%	16.66%	2.36%
Totals:	7,504,164.94	99.82%	100.00%	2.27%



S&P Asset Rating (000's)

	Book	MKT/Book	% Book	Yield
AAA	324,731.15	100.33%	4.33%	2.34%
AA+	4,283,056.65	99.60%	57.08%	2.13%
AA	193,025.70	100.48%	2.57%	2.58%
AA-	1,298,226.94	100.14%	17.30%	2.54%
A+	155,000.00	100.00%	2.07%	2.63%
NR	1,250,124.50	100.00%	16.66%	2.36%
Totals:	7,504,164.94	99.82%	100.00%	2.27%



12-Month Projected Cash Flow

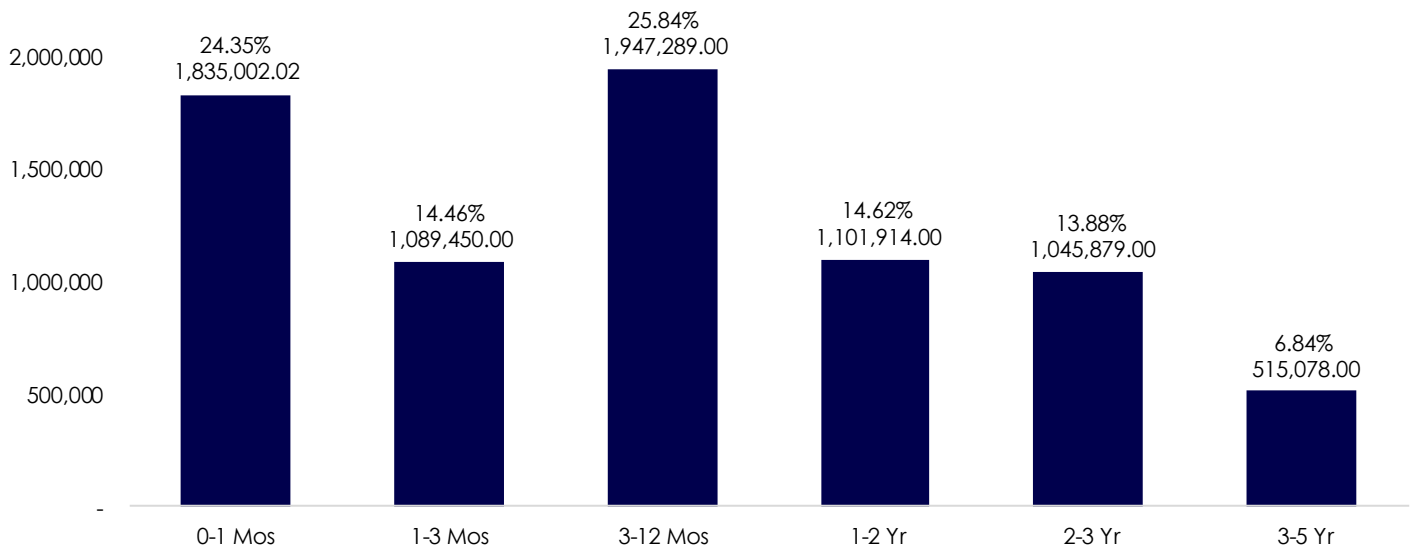
Month	Monthly Receipts	Monthly Disbursements	Difference	Required Matured Investments	Balance	Actual Investments Maturing	Available to Invest > 1 Year
01/2019					96.35		
01/2019	1,000.00	2,100.00	(1,100.00)	1,003.65	-	1,127.03	
02/2019	850.00	1,050.00	(200.00)	200.00	-	458.14	
03/2019	1,350.00	1,200.00	150.00		150.00	233.31	
04/2019	2,000.00	1,300.00	700.00		850.00	16.10	
05/2019	1,200.00	2,050.00	(850.00)		-	274.46	
06/2019	1,050.00	1,850.00	(800.00)	800.00	-	249.09	
07/2019	969.28	1,250.00	(280.72)	280.72	-	216.58	
08/2019	900.00	1,200.00	(300.00)	300.00	-	201.24	
09/2019	1,100.00	1,200.00	(100.00)	100.00	-	101.73	
10/2019	1,100.00	1,300.00	(200.00)	200.00	-	174.28	
11/2019	1,300.00	1,200.00	100.00		100.00	55.00	
12/2019	2,375.13	1,200.00	1,175.13		1,275.13		
TOTALS	15,194.41	16,900.00	(1,705.59)	2,884.37	2,471.48	3,106.96	4,619.79
				38.44%		41.40%	61.56%

* Values listed in Cash Flow Table are in millions of USD.

Based on historic and current financial conditions within the County, the Pool is expected to maintain sufficient liquidity of funds to cover County expenses for the next twelve months.

Portfolio Data cont'd

Asset Maturity Distribution (Par Value, 000's)

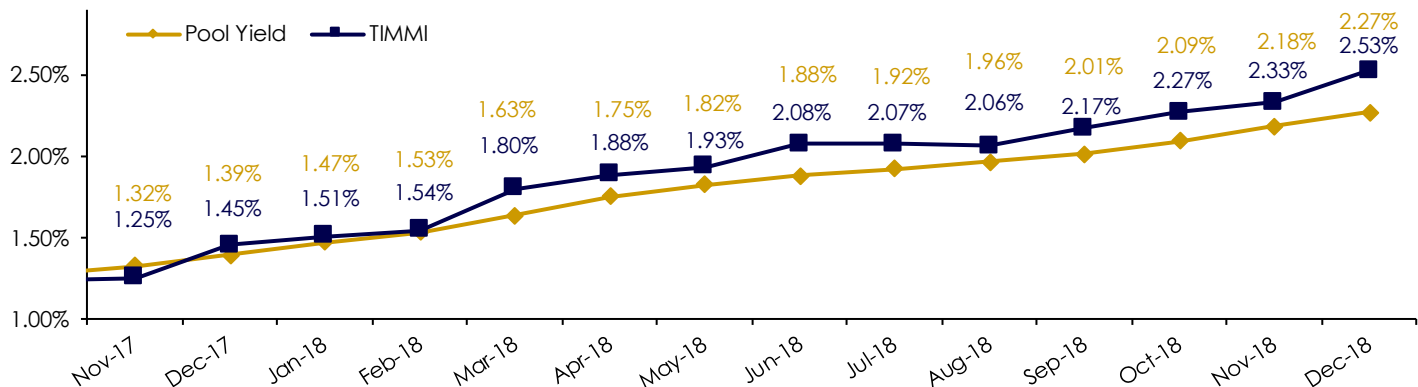


Asset Allocation (000's)

Assets	Scheduled Book	Scheduled Market	Mkt/ Sch Book	Yield	WAL (Yr.)	Mat (Yr.)
TREAS	357,292.83	357,607.75	100.09%	2.33%	0.48	0.48
AGENCIES	3,572,643.50	3,552,868.20	99.45%	2.06%	1.61	1.77
MMKT	62,000.00	62,000.00	100.00%	2.22%	0.00	0.00
CASH	1,040,000.00	1,040,000.00	100.00%	2.38%	0.00	0.00
CALTRUST FND	24,000.00	24,000.00	100.00%	2.37%	0.00	0.00
COMM PAPER	1,122,349.41	1,127,319.54	100.44%	2.50%	0.19	0.19
NCDS	830,998.20	830,998.20	100.00%	2.59%	0.23	0.23
MEDIUM TERM NOTES	301,555.30	302,706.59	100.38%	2.58%	1.01	1.03
MUNI	193,205.70	193,205.70	100.00%	2.27%	1.73	1.73
LOCAL AGCY OBLIG	120.00	120.00	100.00%	2.76%	1.46	1.46
Totals:	7,504,164.94	7,490,825.98	99.82%	2.27%	0.93	1.01

* For details on the Pool's composition see Month End Portfolio Holdings, pages 9 to 13.

TIMMI



The Treasurer's Institutional Money Market Index (TIMMI) is a composite index of four AAA rated prime institutional money market funds. Their aggregate yield is compared to the yield of the Treasurer's Pooled Investment Fund in the above graph.

Compliance Report

Compliance Status: Full Compliance

The Treasurer's Pooled Investment Fund was in full compliance with the County of Riverside's Treasurer's Statement of Investment Policy. The County's Statement of Investment Policy is more restrictive than California Government Code 53646. The County's Investment Policy is reviewed annually by the County of Riverside's Oversight Committee and approved by the Board of Supervisors.

Investment Category	GOVERNMENT CODE			COUNTY INVESTMENT POLICY			Actual %
	Maximum Maturity	Authorized % Limit	S&P/ Moody's	Maximum Maturity	Authorized % Limit	S&P/ Moody's	
MUNICIPAL BONDS (MUNI)	5 YEARS	NO LIMIT	NA	4 YEARS	15%	AA-/Aa3/AA-	2.57%
U.S. TREASURIES	5 YEARS	NO LIMIT	NA	5 YEARS	100%	NA	4.76%
LOCAL AGENCY OBLIGATIONS (LAO)	5 YEARS	NO LIMIT	NA	3 YEARS	2.50%	INVESTMENT GRADE	<0.1%
FEDERAL AGENCIES	5 YEARS	NO LIMIT	AAA	5 YEARS	100%	NA	47.61%
COMMERCIAL PAPER (CP)	270 DAYS	40%	A1/P1	270 DAYS	40%	A1/P1/F1	14.96%
CERTIFICATE & TIME DEPOSITS (NCD & TCD)	5 YEARS	30%	NA	1 YEAR	25% Combined	A1/P1/F1	11.07%
INT'L BANK FOR RECONSTRUCTION AND DEVELOPMENT AND INT'L FINANCE CORPORATION	NA	NA	NA	4 YEARS	20%	AA/Aa/AA	0.00%
REPURCHASE AGREEMENTS (REPO)	1 YEARS	NO LIMIT	NA	45 DAYS	40% max, 25% in term repo over 7 days	A1/P1/F1	0.00%
REVERSE REPOS	92 DAYS	20%	NA	60 DAYS	10%	NA	0.00%
MEDIUM TERM NOTES (MTNO)	5 YEARS	30%	A	3 YEARS	20%	AA/Aa2/AA	4.02%
CALTRUST SHORT TERM FUND	NA	NA	NA	DAILY LIQUIDITY	1.00%	NA	0.32%
MONEY MARKET MUTUAL FUNDS (MMF)	60 DAYS ⁽¹⁾	20%	AAA/Aaa ⁽²⁾	DAILY LIQUIDITY	20%	AAA by 2 Of 3 RATINGS AGC.	0.83%
LOCAL AGENCY INVESTMENT FUND (LAIF)	NA	NA	NA	DAILY LIQUIDITY	Max \$50 million	NA	0.00%
CASH/DEPOSIT ACCOUNT	NA	NA	NA	NA	NA	NA	13.86%

¹ Money Market Mutual Funds maturity may be interpreted as a weighted average maturity not exceeding 60 days.

² Or must have an investment advisor with no fewer than 5 years experience and with assets under management of \$500,000,000 USD.

THIS COMPLETES THE REPORT REQUIREMENTS OF CALIFORNIA GOVERNMENT CODE 53646.

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
Fund: 1 POOL FUND											
1060: MMTK ACCTS-A/365-6											
FRGXX	FIDELITY GOV	01/01/2019	2.198	2.198	1,000,000.00	1,000,000.00	100.000000	1,000,000.00	0.00	.003	.003
GOFXX	FEDERATED GOV	01/01/2019	2.138	2.138	1,000,000.00	1,000,000.00	100.000000	1,000,000.00	0.00	.003	.003
FGTXX	GOLDMAN SACHS GOV	01/01/2019	2.200	2.200	1,000,000.00	1,000,000.00	100.000000	1,000,000.00	0.00	.003	.003
WFFXX	WELLS FARGO GOV	01/01/2019	2.227	2.227	59,000,000.00	59,000,000.00	100.000000	59,000,000.00	0.00	.003	.003
			2.225	2.225	62,000,000.00	62,000,000.00	100.000000	62,000,000.00	0.00	.003	.003
1065: CLTR-A/365-6											
CLTR	CALTRUST SHT TERM FUND	01/01/2019	2.372	2.366	23,976,023.98	24,000,000.00	100.100000	24,000,000.00	0.00	.003	.003
			2.372	2.366	23,976,023.98	24,000,000.00	100.100000	24,000,000.00	0.00	.003	.003
1080: MGD RATE-A/365-6											
CASH	BANK OF THE WEST	01/01/2019	2.452	2.452	300,000,000.00	300,000,000.00	100.000000	300,000,000.00	0.00	.003	.003
			2.452	2.452	300,000,000.00	300,000,000.00	100.000000	300,000,000.00	0.00	.003	.003
1170: MGD RATE-A/360											
CASH	UB MANAGED RATE	01/01/2019	2.350	2.350	450,000,000.00	450,000,000.00	100.000000	450,000,000.00	0.00	.003	.003
CASH	PACIFIC PREMIER BANK	01/01/2019	2.339	2.339	40,000,000.00	40,000,000.00	100.000000	40,000,000.00	0.00	.003	.003
CASH	FIRST REPUBLIC BANK	01/01/2019	2.347	2.347	250,000,000.00	250,000,000.00	100.000000	250,000,000.00	0.00	.003	.003
			2.349	2.349	740,000,000.00	740,000,000.00	100.000000	740,000,000.00	0.00	.003	.003
1175: LAO-SINKING FND-A/360											
LAO	US DIST COURTHOUSE	06/15/2020	2.759	2.759	120,000.00	120,000.00	100.000000	120,000.00	0.00	.688	1.458
			2.759	2.759	120,000.00	120,000.00	100.000000	120,000.00	0.00	.688	1.458
1300: U.S. TREASURY BILL											
912796QH5	U.S. TREASURY BILL	05/23/2019	2.370	2.408	20,000,000.00	19,687,950.00	99.049000	19,809,800.00	121,850.00	.382	.392
			2.370	2.408	20,000,000.00	19,687,950.00	99.049000	19,809,800.00	121,850.00	.382	.392
1310: U.S. TREASURY BOND											
912828K5	U.S. TREASURY BOND	07/31/2019	1.375	1.428	25,000,000.00	24,975,585.94	99.316000	24,829,000.00	-146,585.94	.576	.581
912828K5	U.S. TREASURY BOND	07/31/2019	1.375	1.418	25,000,000.00	24,980,468.75	99.316000	24,829,000.00	-151,468.75	.576	.581
912828W30	U.S. TREASURY BOND	02/28/2019	1.125	2.048	20,000,000.00	19,811,718.75	99.799000	19,959,800.00	148,081.25	.160	.162
912828R44	U.S. TREASURY BOND	05/15/2019	.875	2.297	15,000,000.00	14,819,531.25	99.410000	14,911,500.00	91,968.75	.365	.370
912828V56	U.S. TREASURY BOND	01/31/2019	1.125	2.308	40,000,000.00	39,837,500.00	99.904000	39,961,600.00	124,100.00	.084	.085
912828SN1	U.S. TREASURY BOND	03/31/2019	1.500	2.400	25,000,000.00	24,890,625.00	99.774000	24,943,500.00	52,875.00	.243	.247
912828KD1	U.S. TREASURY BOND	02/15/2019	2.750	2.420	25,000,000.00	25,014,648.44	100.042000	25,010,500.00	-4,148.44	.124	.126
912828W55	U.S. TREASURY BOND	06/30/2019	1.625	2.591	40,000,000.00	39,787,500.00	99.547000	39,818,800.00	31,300.00	.489	.496
912828K5	U.S. TREASURY BOND	07/31/2019	1.375	2.608	25,000,000.00	24,811,523.44	99.316000	24,829,000.00	17,476.56	.572	.581
912828TH3	U.S. TREASURY BOND	07/31/2019	.875	2.601	25,000,000.00	24,736,328.13	99.039000	24,759,750.00	23,421.87	.574	.581
912828U32	U.S. TREASURY BOND	11/15/2019	1.000	2.628	75,000,000.00	73,939,453.13	98.594000	73,945,500.00	6,046.87	.858	.874
			1.329	2.324	340,000,000.00	337,604,882.83	99.352338	337,797,950.00	193,067.17	.477	.484
1425: FHLMC-Fxd-S 30/360											
3134G8QE2	FHLMC 3YrNc1YrE	03/29/2019	1.300	1.300	9,000,000.00	9,000,000.00	99.746000	8,977,140.00	-22,860.00	.239	.241
3134G8QB8	FHLMC 3YrNc1YrE	03/29/2019	1.270	1.270	4,000,000.00	4,000,000.00	99.738000	3,989,520.00	-10,480.00	.239	.241
3134G8TG4	FHLMC 3.5YrNc6MoE	10/11/2019	1.500	1.500	15,000,000.00	15,000,000.00	99.101000	14,865,150.00	-134,850.00	.768	.778
3134G9Q75	FHLMC 3YrNc3MoB	07/26/2019	1.250	1.250	10,000,000.00	10,000,000.00	99.189000	9,918,900.00	-81,100.00	.563	.567
3134GAB26	FHLMC 3.5YrNc1YrE	02/25/2020	1.250	1.250	10,000,000.00	10,000,000.00	98.477000	9,847,700.00	-152,300.00	1.134	1.153
3134GAVF8	FHLMC 3.5YrNc1YrE	05/08/2020	1.200	1.200	15,000,000.00	15,000,000.00	98.228000	14,734,200.00	-265,800.00	1.336	1.353
3134GAX22	FHLMC 4YrNc6MoE	11/25/2020	1.370	1.370	25,000,000.00	25,000,000.00	97.754000	24,438,500.00	-561,500.00	1.867	1.904
3134GAYK4	FHLMC 4YrNc1YrE	11/30/2020	1.440	1.440	10,000,000.00	10,000,000.00	97.865000	9,786,500.00	-213,500.00	1.882	1.918
3134GAK78	FHLMC 1.5YrNc1MoB	01/25/2019	1.350	1.350	10,000,000.00	10,000,000.00	99.940000	9,994,000.00	-6,000.00	.068	.068
3134GBWH1	FHLMC 2.25YrNc6MoB	09/27/2019	1.500	1.509	6,250,000.00	6,248,750.00	99.140000	6,196,250.00	-52,500.00	.730	.740
3134GBY55	FHLMC 2YrNc3MoB	07/26/2019	1.600	1.600	5,000,000.00	5,000,000.00	99.453000	4,972,650.00	-27,350.00	.561	.567
3134GBK35	FHLMC 3YrNc3MoB	09/29/2020	1.800	1.800	15,000,000.00	15,000,000.00	98.548000	14,782,200.00	-217,800.00	1.703	1.748
3137EAE55	FHLMC 2.75Yr	01/11/2020	1.500	1.602	25,000,000.00	24,942,750.00	98.878000	24,719,500.00	-223,250.00	1.025	1.047
3134GBTX0	FHLMC 2.75YrNc2MoB	06/29/2020	1.750	1.780	20,000,000.00	19,983,860.00	98.676000	19,735,200.00	-248,660.00	1.468	1.496
3134GBG30	FHLMC 2YrNc5MoB	09/27/2019	1.500	1.620	20,000,000.00	19,953,600.00	99.193000	19,838,600.00	-115,000.00	.729	.740
3134GBG30	FHLMC 2YrNc6MoB	09/27/2019	1.500	1.621	25,000,000.00	24,942,500.00	99.193000	24,798,250.00	-144,250.00	.729	.740
3134G92B2	FHLMC 2YrNc8MoE	01/30/2019	.950	1.734	20,000,000.00	19,820,000.00	99.893000	19,978,600.00	158,600.00	.081	.082
3134G9NH6	FHLMC 1.5YrNc5MoE	05/24/2019	1.080	1.809	10,000,000.00	9,895,000.00	99.443000	9,944,300.00	49,300.00	.391	.395
3134G9W37	FHLMC 2.5YrNc3MoB	08/10/2020	1.450	2.421	10,000,000.00	9,769,000.00	98.190000	9,819,000.00	50,000.00	1.568	1.611
3134GBX80	FHLMC 4.5YrNc7MoB	11/14/2022	2.300	2.755	12,628,000.00	12,381,754.00	98.359000	12,420,774.52	39,020.52	3.662	3.874
3134GSMF9	FHLMC 5YrNc3YrE	05/26/2023	3.000	3.000	15,000,000.00	15,000,000.00	100.456000	15,068,400.00	68,400.00	4.086	4.403
3134GSQL2	FHLMC 5YrNc2YrE	06/29/2023	3.100	3.100	5,000,000.00	5,000,000.00	100.398000	5,019,900.00	19,900.00	4.165	4.496
3134GSB53	FHLMC 3YrNc1YrE	10/29/2021	3.100	3.100	5,000,000.00	5,000,000.00	100.000000	5,000,000.00	0.00	2.674	2.830
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	10,000,000.00	10,000,000.00	100.000000	10,000,000.00	0.00	2.716	2.877
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	5,000,000.00	5,000,000.00	100.000000	5,000,000.00	0.00	2.716	2.877
3134GSA96	FHLMC 3YrNc1YrE	11/15/2021	3.150	3.150	5,000,000.00	5,000,000.00	100.000000	5,000,000.00	0.00	2.716	2.877
3134GSD44	FHLMC 3YrNc1YrE	11/26/2021	3.150	3.150	25,000,000.00	25,000,000.00	100.395000	25,098,750.00	98,750.00	2.746	2.907
3134GSC45	FHLMC 3YrNc1YrE	11/26/2021	3.160	3.160	10,000,000.00	10,000,000.00	100.426000	10,042,600.00	42,600.00	2.745	2.907
3134GBXV9	FHLMC 1.6YrNc1Yr	07/13/2020	1.850	2.870	15,000,000.00	14,758,950.00	98.871000	14,830,650.00	71,700.00	1.484	1.534
3134GSH40	FHLMC 2YrNc6MoB	12/20/2021	3.150	3.150	10,000,000.00	10,000,000.00	100.118000	10,011,800.00	11,800.00	2.811	2.973
3134GSN68	FHLMC 2.7YrNc6MoB	09/21/2021	3.030	3.030	15,000,000.00	15,000,000.00	100.069000	15,010,350.00	10,350.00	2.591	2.726
3134GSH57	FHLMC 3YrNc3MoB	12/28/2021	3.150	3.150	10,000,000.00	10,000,000.00	100.082000	10,008,200.00	8,200.00	2.833	2.995
3134GSK95	FHLMC 1.75YrNc3MoB	09/28/2020	2.900	2.900	20,000,000.00	20,000,000.00	100.032000	20,006,400.00	6,400.00	1.685	1.745
			1.981	2.131	426,878,000.00	425,696,164.00	99.291597	423,853,984.52	-1,842,179.48	1.650	1.722
1460: FHLMC-STEP%-Q30/360											
3134GAP57	FHLMC 2YrNc1MoB	10/24/2019	1.750	1.927	15,000,000.00	14,973,750.00	99.701000	14,955,150.00	-18,600.00	.807	.814
			1.750	1.927	15,000,000.00	14,973,750.00	99.701000	14,955,150.00	-18,600.00	.807	.814
1465: FHLMC-STEP%-S30/360											
3134G7S77	FHLMC 5YrNc6MoB	10/29/2020	1.500	1.500	15,000,000.00	15,000,000.00	99.472000	14,920,800.00	-79,200.00	1.798	

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
3134G9T23	FHLNC 5YrNc3MoB	08/10/2021	1.500	1.500	10,000,000.00	10,000,000.00	98.244000	9,824,400.00	-175,600.00	2.543	2.611
3134G9U47	FHLNC 5YrNc3MoB	08/25/2021	1.500	1.500	15,000,000.00	15,000,000.00	97.737000	14,660,550.00	-339,450.00	2.575	2.652
3134G95W3	FHLNC 5YrNc3MoB	08/25/2021	1.500	1.500	10,000,000.00	10,000,000.00	97.180000	9,718,000.00	-282,000.00	2.575	2.652
3134G96A0	FHLNC 5YrNc3MoB	08/25/2021	1.375	1.375	15,000,000.00	15,000,000.00	97.766000	14,664,900.00	-335,100.00	2.582	2.652
3134GAEB6	FHLNC 4.25YrNc3MoB	12/08/2020	1.250	1.250	20,000,000.00	20,000,000.00	98.077000	19,615,400.00	-384,600.00	1.906	1.940
3134GAEC5	FHLNC 5YrNc6MoB	08/24/2021	1.500	1.500	20,000,000.00	20,000,000.00	98.556000	19,711,200.00	-288,800.00	2.649	2.649
3134GADP6	FHLNC 5YrNc3MoB	09/13/2021	1.500	1.500	16,500,000.00	16,500,000.00	97.988000	16,168,020.00	-331,980.00	2.625	2.704
3134GAET7	FHLNC 5YrNc3MoB	09/30/2021	1.500	1.500	20,000,000.00	20,000,000.00	97.831000	19,566,200.00	-433,800.00	2.675	2.751
3134GAKY9	FHLNC 5YrNc6MoB	09/30/2021	1.450	1.450	15,000,000.00	15,000,000.00	98.186000	14,727,900.00	-272,100.00	2.677	2.751
3134GANB6	FHLNC 5YrNc6MoB	09/30/2021	1.500	1.500	15,000,000.00	15,000,000.00	98.045000	14,706,750.00	-293,250.00	2.680	2.751
3134GAPM0	FHLNC 5YrNc3MoB	10/25/2021	1.500	1.500	10,000,000.00	10,000,000.00	97.915000	9,791,500.00	-208,500.00	2.745	2.819
3134GAPM0	FHLNC 5YrNc3MoB	10/25/2021	1.500	1.500	6,705,000.00	6,705,000.00	97.915000	6,565,200.75	-139,799.25	2.745	2.819
3134GAPA6	FHLNC 5YrNc3MoB	10/27/2020	1.500	1.500	10,000,000.00	10,000,000.00	98.572000	9,857,200.00	-142,800.00	1.790	1.825
3134GAQV9	FHLNC 5YrNc6MoB	10/27/2021	1.400	1.400	15,000,000.00	15,000,000.00	97.502000	14,625,300.00	-374,700.00	2.751	2.825
3134GAQV9	FHLNC 5YrNc6MoB	10/27/2021	1.400	1.400	15,000,000.00	15,000,000.00	97.502000	14,625,300.00	-374,700.00	2.751	2.825
3134GARL0	FHLNC 5YrNc6MoB	10/28/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.032000	9,903,200.00	-96,800.00	2.758	2.827
3134GASF2	FHLNC 5YrNc3MoB	10/27/2021	1.500	1.500	15,000,000.00	15,000,000.00	97.719000	14,657,850.00	-342,150.00	2.746	2.825
3134GASF2	FHLNC 5YrNc3MoB	10/27/2021	1.500	1.500	15,000,000.00	15,000,000.00	97.719000	14,657,850.00	-342,150.00	2.746	2.825
3134GATA2	FHLNC 5YrNc3MoB	10/27/2021	1.500	1.500	10,000,000.00	10,000,000.00	98.071000	9,807,100.00	-192,900.00	2.750	2.825
3134GATB0	FHLNC 5YrNc3MoB	11/10/2021	1.550	1.550	17,000,000.00	17,000,000.00	97.620000	16,595,400.00	-404,600.00	2.780	2.863
3134GATA2	FHLNC 5YrNc3MoB	10/27/2021	1.500	1.500	14,000,000.00	14,000,000.00	98.071000	13,729,940.00	-270,060.00	2.750	2.825
3134GAU00	FHLNC 5YrNc3MoB	11/30/2021	1.500	1.500	4,500,000.00	4,500,000.00	97.540000	4,389,300.00	-110,700.00	2.840	2.918
3134GAYF5	FHLNC 5YrNc3MoB	11/26/2021	1.550	1.550	20,000,000.00	20,000,000.00	97.548000	19,509,600.00	-490,400.00	2.824	2.907
3134GAYG3	FHLNC 5YrNc3MoB	12/09/2021	1.750	1.750	10,000,000.00	10,000,000.00	98.412000	9,841,200.00	-158,800.00	2.858	2.942
3134GAYR9	FHLNC 5YrNc3MoB	12/09/2021	1.650	1.650	20,000,000.00	20,000,000.00	98.665000	19,733,000.00	-267,000.00	2.855	2.942
3134GAA87	FHLNC 5YrNc3MoB	12/30/2021	1.900	1.900	10,000,000.00	10,000,000.00	98.462000	9,846,200.00	-153,800.00	2.903	3.000
3134GAA87	FHLNC 5YrNc3MoB	12/30/2021	1.900	1.900	10,000,000.00	10,000,000.00	98.462000	9,846,200.00	-153,800.00	2.903	3.000
3134GAZ49	FHLNC 3YrNc6MoB	02/24/2020	2.000	2.000	20,000,000.00	20,000,000.00	100.020000	20,004,000.00	4,000.00	1.127	1.151
3134G7577	FHLNC 3.5Yr	10/29/2020	1.500	1.615	7,125,000.00	7,108,968.75	99.472000	7,007,380.00	-21,588.75	1.796	1.830
3134GBG82	FHLNC 3.5YrNc6MoB	10/27/2020	2.000	2.000	15,000,000.00	15,000,000.00	99.871000	14,980,650.00	-19,350.00	1.784	1.825
3134GBHNS	FHLNC 3YrNc3MoB	04/27/2020	1.750	1.750	10,000,000.00	10,000,000.00	99.519000	9,951,900.00	-48,100.00	1.300	1.323
3134GBK5	FHLNC 3YrNc3MoB	04/27/2020	1.650	1.650	20,000,000.00	20,000,000.00	98.641000	19,728,200.00	-271,800.00	1.300	1.323
3134GBMP4	FHLNC 3YrNc3MoB	05/22/2020	1.750	1.750	10,000,000.00	10,000,000.00	99.334000	9,933,400.00	-66,600.00	1.369	1.392
3134GBPJ5	FHLNC 3YrNc6MoB	05/22/2020	1.700	1.700	20,000,000.00	20,000,000.00	98.983000	19,796,600.00	-203,400.00	1.368	1.392
3134GBSE3	FHLNC 4YrNc6MoB	02/24/2021	1.750	1.750	15,000,000.00	15,000,000.00	99.075000	14,861,250.00	-138,750.00	2.088	2.153
3134GBSD5	FHLNC 3YrNc6MoB	11/24/2020	1.700	1.700	15,000,000.00	15,000,000.00	98.744000	14,811,600.00	-188,400.00	1.858	1.901
3134GBTD4	FHLNC 5YrNc3MoB	06/29/2022	2.050	2.050	20,000,000.00	20,000,000.00	98.879000	19,775,800.00	-224,200.00	3.355	3.496
3134GBTE2	FHLNC 5YrNc6MoB	06/22/2022	2.000	2.000	15,000,000.00	15,000,000.00	98.384000	14,757,600.00	-242,400.00	3.339	3.477
3134GBYK2	FHLNC 5YrNc3MoB	07/05/2022	2.000	2.000	20,000,000.00	20,000,000.00	98.886000	19,777,200.00	-222,800.00	3.342	3.512
3134GBWDD	FHLNC 3.5YrNc3MoB	01/20/2021	1.500	1.500	10,000,000.00	10,000,000.00	99.380000	9,938,000.00	-62,000.00	2.001	2.058
3134GBW57	FHLNC 5YrNc3MoB	07/27/2022	2.050	2.050	20,000,000.00	20,000,000.00	98.630000	19,726,000.00	-274,000.00	3.398	3.573
3134GBYN6	FHLNC 5YrNc3MoB	07/27/2022	2.100	2.100	20,000,000.00	20,000,000.00	98.991000	19,798,200.00	-201,800.00	3.394	3.573
3134G92T3	FHLNC 5YrNc3MoB	08/08/2023	1.500	2.399	5,000,000.00	4,790,170.00	97.133000	4,856,650.00	-66,480.00	4.382	4.605
3134GBZQ8	FHLNC 5YrNc2MoB	07/27/2022	2.250	2.732	3,000,000.00	2,946,600.00	98.975000	2,969,250.00	22,650.00	3.372	3.573
3134GBRW4	FHLNC3YrNc2MoB	06/15/2022	2.000	2.603	10,000,000.00	9,799,500.00	99.268000	9,926,800.00	-127,300.00	3.315	3.458
			1.647	1.663	823,830,000.00	823,347,238.75	98.477191	811,284,640.75	-12,062,598.00	2.434	2.507
1525: FNMA-Fxd-S 30/360											
3136G3RL1	FNMA 3.5YrNc6MoB	12/16/2019	1.500	1.500	5,000,000.00	5,000,000.00	98.929000	4,946,450.00	-53,550.00	.948	959
3136G3WC5	FNMA 4YrNc6MoE	07/13/2020	1.350	1.350	10,000,000.00	10,000,000.00	98.231000	9,823,100.00	-176,900.00	1.503	1.534
3136G3SY2	FNMA 3.25YrNc6MoB	09/30/2019	1.250	1.250	7,500,000.00	7,500,000.00	98.973000	7,422,975.00	-77,025.00	.742	.748
3135G0M26	FNMA 3YrNc6MoE	07/26/2019	1.000	1.000	10,000,000.00	10,000,000.00	99.083000	9,908,300.00	-91,700.00	.564	.567
3135G0M26	FNMA 3YrNc6MoE	07/26/2019	1.000	1.000	10,000,000.00	10,000,000.00	99.083000	9,908,300.00	-91,700.00	.564	.567
3136G3XS9	FNMA 2.5YrNc6MoE	01/25/2019	.875	.900	7,500,000.00	7,495,350.00	99.901000	7,492,575.00	-2,775.00	.068	.068
3136G3A62	FNMA 3YrNc1YrE	07/26/2019	1.050	1.050	15,000,000.00	15,000,000.00	99.124000	14,868,600.00	-131,400.00	.564	.567
3136G3P25	FNMA 3.5YrNc1YrE	07/26/2019	1.125	1.125	25,000,000.00	25,000,000.00	99.185000	24,796,250.00	-203,750.00	.563	.567
3135G0R39	FNMA 3Yr	10/24/2019	1.000	1.091	10,000,000.00	9,973,200.00	98.675000	9,867,500.00	-105,700.00	.807	.814
3136G4GU1	FNMA 3YrNc6MoB	11/25/2019	1.400	1.400	10,000,000.00	10,000,000.00	98.887000	9,888,700.00	-111,300.00	.890	.901
3135G0T60	FNMA 3Yr	07/30/2020	1.500	1.604	10,000,000.00	9,969,700.00	98.347000	9,834,700.00	-135,000.00	1.546	1.581
3136G0YK1	FNMA 2Yr	08/28/2019	1.500	1.400	10,000,000.00	10,019,600.00	99.262000	9,926,200.00	-93,400.00	.658	.658
3135G0S46	FNMA 2.16Yr2MoB	01/27/2020	1.650	1.800	5,000,000.00	4,983,850.00	99.011000	4,950,550.00	-33,300.00	1.051	1.074
3136G1MG1	FNMA 1.4YrNc5MoB	05/29/2019	1.300	1.833	10,000,000.00	9,922,200.00	99.504000	9,950,400.00	28,200.00	.404	.408
3135G0J53	FNMA 1.25Yr	02/26/2019	1.000	1.761	25,000,000.00	24,770,250.00	99.777000	24,944,250.00	174,000.00	.155	.156
3135G0A78	FNMA 2Yr	01/21/2020	1.625	1.911	15,000,000.00	14,910,900.00	99.005000	14,850,750.00	-60,150.00	1.034	1.058
3135G0UUS	FNMA 2.25Yr	03/06/2020	1.750	1.913	11,082,000.00	11,042,326.44	99.040000	10,975,612.80	-66,713.64	1.157	1.181
3135G0T78	FNMA 4.83Yr	10/05/2022	2.000	2.322	15,000,000.00	14,782,200.00	98.110000	14,716,500.00	-65,700.00	3.583	3.764
3135G0T94	FNMA 5Yr	01/19/2023	2.375	2.495	10,000,000.00	9,944,100.00	99.252000	9,925,200.00	-18,900.00	3.797	4.055
3135G0P49	FNMA 8Mo	08/28/2019	1.000	2.655	28,799,000.00	28,472,995.32	98.934000	28,492,002.66	19,007.34	.655	.658
			1.310	1.654	249,881,000.00	248,786,671.76	99.042711	247,488,915.46	-1,297,756.30	1.001	1.030
1560: FNMA-STEP%-Q 30/360											
3136G3SG1	FNMA 4.25YrNc6MoB	09/09/2020	1.625	1.625	15,000,000.00	15,000,000.00	98.076000	14,711,400.00	-288,600.00	1.664	1.693
			1.625	1.625	15,000,000.00	15,000,000.00	98.076000	14,711,400.00	-288,600.00	1.664	1.693
1565: FNMA-STEP%-S 30/360											
3136G3BX2	FNMA 4YrNc6MoB	03/09/2020	1.750	1.750	15,000,000.00	15,000,000.00	99.529000	14,929,350.00	-70,650.00	1.169	1.189
3136G3EH4	FNMA 4YrNc6MoB	03/30/2020	2.000	2.000	10,000,000.00	10,000,000.00	99.884000	9,988,400.00	-11,600.00	1.226	1.247
3136G3DV4	FNMA 5YrNc6MoB	03/30/2021	1.750	1.750	15,000,000.00	15,000,000.00	98.0520				

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
3130A0XD7	FHLB 3Yr	03/12/2021	2.375	2.484	10,000,000.00	9,968,000.00	99.593000	9,959,300.00	-8,700.00	2.113	2.197
3130A0XD7	FHLB 3Yr	03/12/2021	2.375	2.489	10,000,000.00	9,966,500.00	99.593000	9,959,300.00	-7,200.00	2.113	2.197
3130ADPR7	FHLB 2.5YrNc3MoB	09/15/2020	2.500	2.500	5,000,000.00	5,000,000.00	99.936000	4,996,800.00	-3,200.00	1.648	1.710
313378WG2	FHLB 4.08Yr	03/11/2022	2.500	2.619	10,000,000.00	9,954,700.00	99.797000	9,979,700.00	25,000.00	3.028	3.195
3130ADR53	FHLB 2YrNc3MoB	03/20/2020	2.350	2.350	10,000,000.00	10,000,000.00	99.693000	9,969,300.00	-30,700.00	1.188	1.219
3130AAE46	FHLB 10Mo	01/16/2019	1.250	1.121	23,155,000.00	22,988,052.45	99.950000	23,143,422.50	155,370.05	.043	.044
3130ADG48	FHLB 2.83YrNc1.33YrE	01/29/2021	2.250	2.553	20,000,000.00	19,833,600.00	99.376000	19,875,200.00	41,600.00	1.997	2.082
3130ADG48	FHLB 2.75YrNc1.25YrE	01/29/2021	2.250	2.513	10,000,000.00	9,928,600.00	99.376000	9,937,600.00	9,000.00	1.997	2.082
3130AAE46	FHLB 9Mo	01/16/2019	1.250	1.131	50,000,000.00	49,658,000.00	99.950000	49,975,000.00	317,000.00	.043	.044
313382AX1	FHLB 4.9Yr	03/10/2023	2.125	2.716	11,750,000.00	11,432,397.50	97.951000	11,509,242.50	76,845.00	3.950	4.192
3130A8DB6	FHLB 1.167Yr	06/21/2019	1.125	2.263	10,620,000.00	10,480,240.80	99.313000	10,547,040.60	66,799.80	.466	.471
3130AE6U9	FHLB 3Yr	05/07/2021	2.700	2.725	7,650,000.00	7,644,492.00	100.445000	7,684,042.50	39,550.50	2.254	2.351
3130AE6U9	FHLB 3Yr	05/07/2021	2.700	2.703	10,000,000.00	9,999,100.00	100.445000	10,044,500.00	45,400.00	2.254	2.351
3133XY6	FHLB 11Mo	06/14/2019	4.375	2.373	5,000,000.00	5,092,350.00	100.791000	5,039,550.00	-52,800.00	.446	.452
3130A9M40	FHLB 4.17Yr	09/29/2022	1.650	2.929	15,730,000.00	14,940,354.00	96.484000	15,176,933.20	236,579.20	3.576	3.748
3130A8R54	FHLB 4.9YrNc1Mo	07/28/2023	1.800	2.965	3,700,000.00	3,504,196.00	95.641000	3,538,717.00	34,521.00	4.308	4.575
3130A9EP2	FHLB 11MoB	09/26/2019	1.000	2.687	20,180,000.00	19,877,300.00	98.791000	19,936,023.80	58,723.80	.724	.737
3130AFCU9	FHLB 3YrNc1YrE	11/26/2021	3.125	3.150	10,000,000.00	9,992,900.00	100.296000	10,029,600.00	36,700.00	2.746	2.907
3130AFFA0	FHLB 3YrNc1YrB	11/29/2021	3.200	3.200	15,000,000.00	15,000,000.00	100.203000	15,030,450.00	30,450.00	2.751	2.915
3130AFER4	FHLB 3 YrNc6MoB	12/06/2021	3.220	3.220	10,000,000.00	10,000,000.00	100.228000	10,022,800.00	22,800.00	2.770	2.934
3130AFFB8	FHLB 1.5YrNc3MoB	05/28/2020	3.000	3.000	10,000,000.00	10,000,000.00	100.072000	10,007,200.00	7,200.00	1.366	1.408
3130A8CK7	FHLB 4.5Yr	06/09/2023	2.050	3.147	10,000,000.00	9,540,100.00	97.006000	9,700,600.00	160,500.00	4.189	4.441
3130AFMP9	FHLB 9MoNc3MoB	06/26/2020	2.750	2.750	10,000,000.00	10,000,000.00	100.006000	10,000,600.00	600.00	1.446	1.488
3130AFMP9	FHLB 9MoNc3MoB	06/26/2020	2.750	2.750	10,000,000.00	10,000,000.00	100.006000	10,000,600.00	600.00	1.446	1.488
3130AFMP9	FHLB 9MoNc3MoB	06/26/2020	2.750	2.750	15,000,000.00	15,000,000.00	100.006000	15,000,900.00	900.00	1.446	1.488
3130AFLA3	FHLB 5YrNc3MoB	12/28/2023	3.200	3.200	15,000,000.00	15,000,000.00	100.048000	15,007,200.00	7,200.00	4.579	4.995
3130AFMP9	FHLB 1.5YrNc3MoB	06/26/2020	2.750	2.750	11,325,000.00	11,325,000.00	100.006000	11,325,679.50	679.50	1.446	1.488
			1.971	2.295	519,935,000.00	516,741,099.00	99.399849	516,814,603.60	73,504.60	1.517	1.587
1760: FHLB-STEP%-Q 30/360											
3130A8UH4	FHLB 3YrNcMoB	08/15/2019	2.500	2.500	25,000,000.00	25,000,000.00	99.971000	24,992,750.00	-7,250.00	.617	.622
			2.500	2.500	25,000,000.00	25,000,000.00	99.971000	24,992,750.00	-7,250.00	.617	.622
1765: FHLB-STEP%-S 30/360											
3130A9DH1	FHLB 5YrNc3MoB	09/30/2021	1.500	1.500	15,000,000.00	15,000,000.00	98.517000	14,777,550.00	-222,450.00	2.680	2.751
3130A9DA6	FHLB 5YrNc3MoB	09/30/2021	1.500	1.500	15,000,000.00	15,000,000.00	98.509000	14,776,350.00	-223,650.00	2.680	2.751
3130AA2T4	FHLB 5YrNc6MoB	12/09/2021	1.600	1.600	10,000,000.00	10,000,000.00	98.077000	9,807,700.00	-192,300.00	2.857	2.942
3130AA2T4	FHLB 5YrNc6MoB	12/09/2021	1.600	1.600	10,000,000.00	10,000,000.00	98.077000	9,807,700.00	-192,300.00	2.857	2.942
3130AA5A2	FHLB 5YrNc1YrB	12/08/2021	1.700	1.700	15,000,000.00	15,000,000.00	98.749000	14,812,350.00	-187,650.00	2.849	2.940
3130ABQV1	FHLB 5YrNc6MoB	07/26/2022	2.000	2.000	15,000,000.00	15,000,000.00	98.944000	14,841,600.00	-158,400.00	3.420	3.570
3130ABVZ6	FHLB 5YrNc6MoB	02/09/2022	1.750	1.750	20,000,000.00	20,000,000.00	99.215000	19,843,000.00	-157,000.00	2.990	3.112
3130ABZW9	FHLB 5YrNc3MoB	08/24/2022	2.000	2.000	10,000,000.00	10,000,000.00	98.360000	9,836,000.00	-164,000.00	3.477	3.649
3130AC6H2	FHLB 5YrNc3MoB	08/24/2022	2.000	2.000	15,000,000.00	15,000,000.00	98.292000	14,743,800.00	-256,200.00	3.477	3.649
3130AC4T8	FHLB 5YrNc3MoB	05/24/2022	2.000	2.000	20,000,000.00	20,000,000.00	99.230000	19,846,000.00	-154,000.00	3.272	3.397
3130A9TV3	FHLB 3.4YrNc2MoB	11/08/2021	1.500	2.579	10,000,000.00	9,690,500.00	98.105000	9,810,500.00	120,000.00	2.770	2.858
3130AA5Y0	FHLB 4.16YrNc2MoB	11/25/2022	1.750	2.436	5,100,000.00	4,967,400.00	98.340000	5,015,340.00	47,940.00	3.758	3.904
			1.758	1.847	160,100,000.00	159,657,900.00	98.637033	157,917,890.00	-1,740,010.00	3.063	3.179
1767: FHLB-Var-M A/360											
3130A9FU0	FHLB 4Yr	09/22/2020	2.654	2.654	10,000,000.00	10,000,000.00	100.211000	10,021,100.00	21,100.00	1.711	1.729
3130A9FM8	FHLB 4Yr	09/22/2020	2.654	2.654	15,000,000.00	15,000,000.00	100.211000	15,031,650.00	31,650.00	1.711	1.729
3130A9FR7	FHLB 4Yr	09/28/2020	2.656	2.656	10,000,000.00	10,000,000.00	100.249000	10,024,900.00	24,900.00	1.736	1.745
3130A9FR7	FHLB 4Yr	09/28/2020	2.656	2.656	15,000,000.00	15,000,000.00	100.249000	15,037,350.00	37,350.00	1.736	1.745
			2.655	2.655	50,000,000.00	50,000,000.00	100.230000	50,115,000.00	115,000.00	1.724	1.737
1770: FHLB-Var-Q A/360											
3130A8NF6	FHLB 3Yr	07/01/2020	2.521	2.521	25,000,000.00	25,000,000.00	100.387000	25,096,750.00	96,750.00	1.729	1.501
			2.521	2.521	25,000,000.00	25,000,000.00	100.387000	25,096,750.00	96,750.00	1.729	1.501
1900: FFCB-DISC NOTE											
313312MJ6	FFCB DISC NTE	09/30/2019	2.570	2.622	25,000,000.00	73,511,541.67	98.111000	73,583,250.00	71,708.33	.728	.748
313312LX6	FFCB DISC NTE	09/19/2019	2.570	2.620	25,000,000.00	24,525,263.89	98.187000	24,546,750.00	21,486.11	.699	.718
			2.570	2.621	100,000,000.00	98,036,805.56	98.130000	98,130,000.00	93,194.44	.721	.740
1925: FFCB-Fxd-S 30/360											
3133EFV38	FFCB 3YrNc1YrA	03/29/2019	1.250	1.250	10,310,000.00	10,310,000.00	99.715000	10,280,616.50	-29,383.50	.239	.241
3133EF5D5	FFCB 4YrNc1YrA	04/27/2020	1.420	1.420	7,700,000.00	7,700,000.00	98.558000	7,588,966.00	-111,034.00	1.302	1.323
3133EGN77	FFCB 2.5YrNc3MoA	01/28/2019	1.110	1.110	25,000,000.00	25,000,000.00	99.917000	24,979,250.00	-20,750.00	.076	.077
3133EGSA4	FFCB 4YrNc1YrA	08/24/2020	1.320	1.320	10,000,000.00	10,000,000.00	97.965000	9,976,500.00	-203,500.00	1.617	1.649
3133EGVK8	FFCB 4YrNc1YrA	09/21/2020	1.350	1.350	10,000,000.00	10,000,000.00	97.909000	9,790,900.00	-209,100.00	1.691	1.726
3133EGX48	FFCB 4YrNc1YrA	10/13/2020	1.340	1.340	15,000,000.00	15,000,000.00	97.832000	14,674,800.00	-325,200.00	1.752	1.786
3133EGC94	FFCB 4YrNc3MoA	11/02/2020	1.380	1.380	10,000,000.00	10,000,000.00	97.839000	9,783,900.00	-216,100.00	1.803	1.841
3133EGR49	FFCB 4YrNc1YrA	12/07/2020	1.770	1.770	10,000,000.00	10,000,000.00	98.456000	9,845,600.00	-154,400.00	1.890	1.937
3133EHAJ2	FFCB 3YrNc1YrE	02/27/2020	1.710	1.710	10,000,000.00	10,000,000.00	99.081000	9,908,100.00	-91,900.00	1.133	1.159
3133EHRK1	FFCB 2.5Yr	01/17/2020	1.520	1.520	10,000,000.00	10,000,000.00	98.898000	9,889,800.00	-110,200.00	1.025	1.047
3133EHUL5	FFCB 3Yr	08/10/2020	1.550	1.550	5,000,000.00	5,000,000.00	98.378000	4,918,900.00	-81,100.00	1.573	1.611
3133EHWN9	FFCB 2Yr	08/28/2019	1.400	1.400	5,000,000.00	5,000,000.00	99.217000	4,960,850.00	-39,150.00	.659	.658
3133EEZ60	FFCB 2Yr	06/24/2019	1.520	1.400	5,000,000.00	5,010,640.00	99.508000	4,975,400.00	-35,240.00	.476	.479
3133EHWN9	FFCB 2Yr	08/28/2019	1.400	1.410	10,000,000.00	9,998,000.00					

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity	
3133EDXQ0	FFCB 5Yr	10/10/2019	2.457	2.457	15,000,000.00	15,000,000.00	100.095000	15,014,250.00	14,250.00	.773	.775	
3133EDXQ0	FFCB 5Yr	10/10/2019	2.457	2.457	25,000,000.00	25,000,000.00	100.095000	25,023,750.00	23,750.00	.773	.775	
3133EDXQ0	FFCB 5Yr	10/10/2019	2.457	2.486	10,000,000.00	9,997,560.00	100.095000	10,009,500.00	11,940.00	.773	.775	
3133EFT56	FFCB 4Yr	04/01/2020	2.584	2.584	25,000,000.00	25,000,000.00	100.284000	25,071,000.00	71,000.00	1.325	1.252	
3133EFZ29	FFCB 4Yr	04/13/2020	2.677	2.677	50,000,000.00	50,000,000.00	100.301000	50,150,500.00	150,500.00	1.275	1.285	
3133EGCE3	FFCB 5Yr	05/25/2021	2.776	2.776	10,000,000.00	10,000,000.00	100.601000	10,060,100.00	60,100.00	2.374	2.400	
3133EGCE3	FFCB 5Yr	05/25/2021	2.776	2.776	10,000,000.00	10,000,000.00	100.601000	10,060,100.00	60,100.00	2.374	2.400	
3133EGYA7	FFCB 3Yr	10/11/2019	2.580	2.580	15,000,000.00	15,000,000.00	100.166000	15,024,900.00	24,900.00	.774	.778	
3133EGZ57	FFCB 3Yr	10/24/2019	2.684	2.684	15,000,000.00	15,000,000.00	100.176000	15,026,400.00	26,400.00	.810	.814	
3133EGF67	FFCB 3Yr	11/14/2019	2.610	2.610	15,000,000.00	15,000,000.00	100.165000	15,024,750.00	24,750.00	.865	.871	
3133EGF67	FFCB 3Yr	11/14/2019	2.610	2.610	15,000,000.00	15,000,000.00	100.165000	15,024,750.00	24,750.00	.865	.871	
3133EG4C6	FFCB 3.9Yr	01/18/2022	2.695	2.383	15,000,000.00	15,139,095.00	100.535000	15,080,250.00	-58,845.00	2.956	3.052	
3133EJDG1	FFCB 5Yr	02/21/2023	2.549	2.549	15,000,000.00	15,000,000.00	99.951000	14,992,650.00	-7,350.00	3.985	4.145	
3133EJJE0	FFCB 3.5Yr	10/04/2021	2.372	2.372	15,000,000.00	15,000,000.00	100.000000	15,000,000.00	0.00	2.678	2.762	
3133EHKY8	FFCB 1.4Yr	05/26/2020	2.506	2.516	1,680,000.00	1,679,769.44	99.959000	1,679,311.20	-458.24	1.376	1.403	
3133EHKY8	FFCB 1.4Yr	05/26/2020	2.506	2.516	1,710,000.00	1,709,765.32	99.959000	1,709,298.90	-466.42	1.376	1.403	
3133EHA63	FFCB 1.1Yr	02/21/2020	2.529	2.479	7,940,000.00	7,944,501.98	100.034000	7,942,699.60	-1,802.38	1.120	1.142	
			2.590	2.572	261,330,000.00	261,470,691.74	100.215899	261,894,209.70	423,517.96	1.495	1.514	
1950: FMAC-Fxd-S 30/360												
3132X0WK3	FAMCA 2Yr	08/20/2019	1.440	1.442	5,000,000.00	4,999,800.00	99.314000	4,965,700.00	-34,100.00	.628	.636	
3132X0WY3	FAMCA 2Yr	09/26/2019	1.420	1.420	10,000,000.00	10,000,000.00	99.152000	9,915,200.00	-84,800.00	.727	.737	
3132X0A50	FAMCA 1.4Yr	05/15/2019	1.810	1.810	10,000,000.00	10,000,000.00	99.777000	9,977,700.00	-22,300.00	.366	.370	
3132X0C41	FAMCA 1.5Yr	06/24/2019	1.860	1.860	20,000,000.00	20,000,000.00	99.749000	19,949,800.00	-50,200.00	.475	.479	
3132X0C74	FAMCA 2.08Yr	02/03/2020	1.970	1.970	15,000,000.00	15,000,000.00	99.575000	14,936,250.00	-63,750.00	1.064	1.093	
3132X0F97	FAMCA 1Yr	01/29/2019	1.900	1.900	25,000,000.00	25,000,000.00	99.981000	24,995,250.00	-4,750.00	.079	.079	
3132X0Y26	FAMCA 1.58Yr	01/02/2020	2.530	2.530	20,000,000.00	20,000,000.00	100.184000	20,036,800.00	36,800.00	.984	1.005	
3132X03B5	FAMCA 4.9Yr	06/30/2023	2.850	2.964	10,000,000.00	9,947,900.00	100.879000	10,087,900.00	140,000.00	4.193	4.499	
3132X04F5	FAMCA 2.91Yr	07/23/2021	2.840	2.864	10,000,000.00	9,993,300.00	100.744000	10,074,400.00	81,100.00	2.425	2.562	
			2.090	2.103	125,000,000.00	124,941,000.00	99.951200	124,939,000.00	-2,000.00	1.023	1.067	
1965: FMAC-Var-M A/360												
3132X0AT8	FAMCA 2.5 Yr	06/02/2020	2.489	2.317	25,000,000.00	25,063,500.00	100.229000	25,057,250.00	-6,250.00	1.402	1.422	
3132X0S77	FAMCA 3Yr	04/23/2021	2.556	2.556	25,000,000.00	25,000,000.00	100.082000	25,020,500.00	20,500.00	2.254	2.312	
3132X0U90	FAMCA 3Yr	05/10/2021	2.407	2.407	10,000,000.00	10,000,000.00	100.008000	10,000,800.00	800.00	2.299	2.359	
			2.503	2.432	60,000,000.00	60,063,500.00	100.130917	60,078,550.00	15,050.00	1.906	1.949	
1975: FMAC-Var-Q A/360												
3132X0ED9	FAMCA 3Yr	03/19/2019	2.874	2.874	10,000,000.00	10,000,000.00	100.051000	10,005,100.00	5,100.00	.212	.214	
3132X0EV9	FAMCA 3Yr	07/26/2019	2.648	2.648	15,000,000.00	15,000,000.00	100.171000	15,025,650.00	25,650.00	.564	.567	
			2.738	2.738	25,000,000.00	25,000,000.00	100.123000	25,030,750.00	30,750.00	.423	.426	
2350: MUNIS-S 30/360												
882723A33	TEXAS STATE	10/01/2019	1.497	1.497	5,000,000.00	5,000,000.00	100.000000	5,000,000.00	0.00	.741	.751	
419792JG2	HAWAII STATE	04/01/2019	1.380	1.380	4,990,000.00	4,990,000.00	100.000000	4,990,000.00	0.00	.247	.249	
419792JH0	HAWAII STATE	04/01/2020	1.660	1.660	5,055,000.00	5,055,000.00	100.000000	5,055,000.00	0.00	1.227	1.252	
76222RUM2	RHODE ISLAND STATE	05/01/2020	1.625	1.520	2,660,000.00	2,670,719.80	100.403000	2,670,719.80	10,719.80	0.00	1.311	1.334
76222RUL4	RHODE ISLAND STATE	05/01/2019	1.375	1.220	2,625,000.00	2,636,838.75	100.451000	2,636,838.75	11,838.75	0.00	.329	.332
3733845L6	GEORGIA STATE	07/01/2020	3.000	1.370	6,825,000.00	7,254,770.25	106.297000	7,254,770.25	429,770.25	0.00	1.450	1.501
3733845K8	GEORGIA STATE	07/01/2019	3.000	1.110	6,580,000.00	6,943,874.00	105.530000	6,943,874.00	363,874.00	0.00	.493	.499
041042T2	ARKANSAS STATE	06/01/2019	2.000	1.024	13,470,000.00	13,837,192.20	102.726000	13,837,192.20	367,192.20	0.00	.414	.416
419792NE2	HAWAII STATE	10/01/2019	1.151	1.101	2,250,000.00	2,253,262.50	100.145000	2,253,262.50	3,262.50	0.00	.743	.751
419792NF9	HAWAII STATE	10/01/2020	1.370	1.319	2,250,000.00	2,254,320.00	100.192000	2,254,320.00	430.00	0.00	1.718	1.753
68609BKK8	OREGON STATE	05/01/2019	1.450	1.450	1,830,000.00	1,829,981.70	99.999000	1,829,981.70	-18.30	0.00	.329	.332
68609BYC5	OREGON STATE	04/01/2019	1.440	1.441	1,750,000.00	1,749,982.50	99.999000	1,749,982.50	-17.50	0.00	.247	.249
93974DV39	WASHINGTON STATE	08/01/2019	1.500	1.541	8,745,000.00	8,738,703.60	99.928000	8,738,703.60	-6,296.40	0.00	.575	.584
13063DAC2	STATE OF CALIFORNIA	04/01/2021	2.625	2.011	14,400,000.00	14,688,720.00	102.005000	14,688,720.00	288,720.00	0.00	2.165	2.252
010878A0	ALAMEDA COUNTY G.O.	08/01/2020	2.562	2.562	17,600,000.00	17,600,000.00	100.000000	17,600,000.00	0.00	1.526	1.586	
76222RW5	RHODE ISLAND ST & PROV PLANT	04/01/2020	2.750	2.451	3,065,000.00	3,082,378.55	100.567000	3,082,378.55	17,378.55	0.00	1.216	1.252
76222RWS7	RHODE ISLAND ST & PROV PLANT	04/01/2019	5.000	2.253	2,330,000.00	2,390,020.80	102.576000	2,390,020.80	60,020.80	0.00	.246	.249
76222RWU2	RHODE ISLAND ST & PROV PLANT	04/01/2021	2.750	2.551	3,150,000.00	3,167,766.00	100.564000	3,167,766.00	17,766.00	0.00	2.158	2.252
13063DGA0	STATE OF CALIFORNIA	04/01/2021	2.800	2.799	16,000,000.00	16,000,640.00	100.004000	16,000,640.00	640.00	0.00	2.155	2.252
13063DAC2	STATE OF CALIFORNIA	04/01/2021	2.625	2.850	1,795,000.00	1,784,301.80	99.404000	1,784,301.80	-10,698.20	0.00	2.155	2.252
13063DAB4	STATE OF CALIFORNIA	04/01/2019	1.593	2.351	7,030,000.00	6,990,842.90	99.443000	6,990,842.90	-39,157.10	0.00	.246	.249
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	2.960	1,500,000.00	1,468,800.00	97.920000	1,468,800.00	-31,200.00	0.00	3.082	3.252
544351MM8	CITY OF LOS ANGELES	09/01/2021	4.000	2.919	8,915,000.00	9,200,993.20	103.208000	9,200,993.20	285,993.20	0.00	2.527	2.671
93974D5L8	WASHINGTON STATE	08/01/2019	2.630	2.630	10,085,000.00	10,085,000.00	100.000000	10,085,000.00	0.00	.571	.584	
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	3.120	17,695,000.00	17,256,340.95	97.521000	17,256,340.95	-438,659.05	0.00	3.080	3.252
13063DAD0	STATE OF CALIFORNIA	04/01/2022	2.367	3.290	25,000,000.00	24,275,250.00	97.101000	24,275,250.00	-724,750.00	0.00	3.077	3.252
			2.393	2.274	192,595,000.00	193,205,699.50	100.317090	193,205,699.50	704,699.50	0.00	1.643	1.720
3020: COMMERCIAL PAPER												
25214PG98	DEXIA (GUARANTEE)	01/18/2019	2.470	2.515	15,000,000.00	14,729,329.17	99.879583	14,981,937.50	252,608.33	.048	.049	
63763QQ7	NATL SEC CLEARING CORP	03/27/2019	2.500	2.547	40,000,000.00	39,255,555.56	99.374306	39,749,722.22	494,166.66	.230	.236	
25214PU8	DEXIA (GUARANTEE)	03/19/2019	2.500	2.543	25,000,000.00	24,574,652.78	99.433194	24,858,298.61	283,645.83	.208	.214	
89233HPS7	TOYOTA MOTOR CORP	02/26/2019	2.460	2.498	25,000,000.00	24,619,041.67	99.603333	24,900,833.33	281,791.66	.152	.156	
63763QSQ1	NATL SEC CLEARING CORP	05/24/2019	2.450	2.496	50,000,000.00	49,084,652.78	98.891750	49,445,875.00	361,222.22	.385	.395	
25214PL50	DEXIA (GUARANTEE)	01/22/2019	2.320	2.342	40,000,000.00	39,626,222.22	99.851250	39,940,500.00	314,277.78	.059	.060	
89233HQ49	TOYOTA MOTOR CORP	03/04/2019	2.400	2.429	25,000,000.00	24,700,000.00	99.543611	24,885,902.78	185,902.78	.168	.173	
89233HNW0	TOYOTA MOTOR CORP	01/30/2019	2.380	2.400	13,000,000.00	12,890,850.56	99.794583	12,973,295.83	82,445.27	.080	.082	
63763QTO0	NATL SEC CLEARING CORP	06/24/2019	2.610	2.662	35,000,000.00	34,314,875.00	98.651500	34,528,025.00	213,150.00	.467	.479	
03785EQR8	APPLE	03/25/2019	2.400	2.428	25,000,000.00	24,713,333.33	99.389028	24,847,256.94	133,923.61	.225	.230	
89233HN3												

Month End Portfolio Holdings

CUSIP	Description	Maturity Date	Coupon	Yield To Mat	Par Value	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Modified Duration	Years To Maturity
04249LNU6	AMRY & AIR FORCE EXCHANGE	01/28/2019	2.470	2.480	3,500,000.00	3,485,351.53	99.808750	3,493,306.25	7,954.72	.075	.077
03785EPB4	APPLE	02/11/2019	2.450	2.463	40,000,000.00	39,795,833.33	99.709583	39,883,833.33	88,000.00	.112	.115
74271UPS3	PROCTER & GAMBEL	02/26/2019	2.500	2.516	12,800,000.00	12,720,888.89	99.603333	12,749,226.67	28,337.78	.152	.156
04249LNV4	ARMY AR EXCHANGE	01/29/2019	2.470	2.480	26,000,000.00	25,891,182.78	99.801667	25,948,433.33	57,250.55	.077	.079
74271UPT1	PROCTER & GAMBLE	02/27/2019	2.500	2.515	60,000,000.00	59,645,833.33	99.596250	59,757,750.00	111,916.66	.155	.159
74271UPT1	PROCTER & GAMBLE	02/27/2019	2.500	2.515	50,000,000.00	49,704,861.11	99.596250	49,798,125.00	93,263.89	.155	.159
63763QT31	NATL SEC CLEARING CORP	06/03/2019	2.780	2.819	30,000,000.00	29,585,316.67	98.814250	29,644,275.00	58,958.33	.410	.422
16677KS87	CHEVRON	05/08/2019	2.600	2.629	15,000,000.00	14,835,333.33	99.015750	14,852,362.50	17,029.17	.341	.351
03785ET38	APPLE	06/03/2019	2.680	2.715	30,000,000.00	29,609,166.67	98.814250	29,644,275.00	35,108.33	.410	.422
16677KQ55	CHEVRON	03/05/2019	2.430	2.444	15,000,000.00	14,914,950.00	99.536250	14,930,437.50	15,487.50	.171	.175
63763QW60	NATL SEC CLEARING CORP	09/06/2019	2.950	3.016	25,000,000.00	24,450,972.22	97.898889	24,474,722.22	23,750.00	.662	.682
74271UPB7	PROCTER & GAMBLE	02/08/2019	2.500	2.510	55,000,000.00	54,782,291.67	99.730833	54,851,958.33	69,666.66	.104	.107
			2.476	2.500	1,133,171,000.00	1,122,349,405.15	99.483620	1,127,319,537.14	4,970,131.99	.184	.189
3130: CORP-Fxd-S 30/360											
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.273	6,350,000.00	6,297,739.50	99.274000	6,303,899.00	6,159.50	1.071	1.101
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.277	6,000,000.00	5,951,100.00	99.274000	5,956,440.00	5,340.00	1.071	1.101
594918BG8	MICROSOFT CORP	11/03/2020	2.000	2.543	25,000,000.00	24,649,750.00	98.886000	24,721,500.00	71,750.00	1.786	1.844
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.354	3,000,000.00	2,971,440.00	99.274000	2,978,220.00	6,780.00	1.071	1.101
037833CE8	APPLE	02/08/2019	1.550	2.281	22,840,000.00	22,684,688.00	99.891000	22,815,104.40	130,416.40	.106	.107
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.373	4,097,000.00	4,057,013.28	99.274000	4,067,255.78	10,242.50	1.071	1.101
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.388	8,000,000.00	7,920,160.00	99.274000	7,941,920.00	21,760.00	1.071	1.101
594918BN3	MICROSOFT CORP	08/08/2019	1.100	2.288	10,000,000.00	9,835,600.00	99.005000	9,900,500.00	64,900.00	.593	.603
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.414	16,000,000.00	15,832,480.00	99.274000	15,883,840.00	51,360.00	1.071	1.101
478160BS2	JOHNSON & JOHNSON	03/01/2021	1.650	2.646	12,000,000.00	11,663,160.00	97.448000	11,693,760.00	30,600.00	2.098	2.167
594918BV5	MICROSOFT CORP	02/06/2020	1.850	2.469	10,000,000.00	9,887,000.00	99.274000	9,927,400.00	40,400.00	1.070	1.101
478160BS2	JOHNSON & JOHNSON	03/01/2021	1.650	2.625	12,969,000.00	12,617,410.41	97.448000	12,638,031.12	20,620.71	2.098	2.167
594918BN3	MICROSOFT CORP	08/08/2019	1.100	2.481	14,772,000.00	14,527,818.84	99.005000	14,625,018.60	97,199.76	.593	.603
594918BN3	MICROSOFT CORP	08/08/2019	1.100	2.400	20,000,000.00	19,697,600.00	99.005000	19,801,000.00	103,400.00	.593	.603
594918AY0	MICROSOFT CORP	02/12/2020	1.850	2.691	16,880,000.00	16,654,820.80	99.149000	16,736,351.20	81,530.40	1.085	1.118
594918BN3	MICROSOFT CORP	08/08/2019	1.100	2.494	10,154,000.00	10,001,690.00	99.005000	10,052,967.70	51,277.70	.593	.603
037833CB4	APPLE	08/02/2019	1.100	2.570	12,500,000.00	12,339,000.00	99.006000	12,375,750.00	36,750.00	.576	.586
594918BN3	MICROSOFT CORP	08/08/2019	1.100	2.568	4,982,000.00	4,916,735.80	99.005000	4,932,429.10	15,693.30	.592	.603
166764BH2	CHEVRON CORP	05/16/2019	1.561	2.570	10,000,000.00	9,938,600.00	99.460000	9,946,000.00	7,400.00	.368	.373
931142DY6	WALMART	10/09/2019	1.750	2.824	25,000,000.00	24,752,750.00	99.298000	24,824,500.00	71,750.00	.757	.773
931142DY6	WALMART	10/09/2019	1.750	2.838	22,029,000.00	21,812,234.64	99.298000	21,874,356.42	62,121.78	.757	.773
037833CZ1	APPLE	09/12/2019	1.500	2.823	12,803,000.00	12,662,038.97	99.122000	12,690,589.66	28,550.69	.684	.699
478160BS2	JOHNSON & JOHNSON	03/01/2021	1.650	3.149	10,295,000.00	9,955,059.10	97.448000	10,032,271.60	77,212.50	2.092	2.167
594918BG8	MICROSOFT CORP	11/03/2020	2.000	2.912	10,100,000.00	9,929,411.00	98.886000	9,981,486.00	58,075.00	1.783	1.844
			1.605	2.579	305,771,000.00	301,555,300.34	98.997809	302,706,590.58	1,151,290.24	.996	1.023
4500: NCD-Mat A/360											
65590AVR4	NORDEA BK	01/25/2019	2.450	2.450	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.067	.068
89113XM27	TORONTO DOMINION	01/25/2019	2.510	2.510	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.067	.068
65590AWG7	NORDEA BK	02/08/2019	2.450	2.450	20,000,000.00	20,000,000.00	100.000000	20,000,000.00	0.00	.104	.107
87019VHX8	SWEDBANK AB	02/08/2019	2.410	2.410	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.104	.107
06052TB82	BANK OF AMERICA NA	02/11/2019	2.440	2.440	50,000,000.00	50,000,000.00	100.000000	50,000,000.00	0.00	.112	.115
89114MDZ7	TORONTO DOMINION	02/13/2019	2.400	2.400	50,000,000.00	50,000,000.00	100.000000	50,000,000.00	0.00	.118	.121
78012UHD0	ROYAL BANK OF CANADA NY	06/07/2019	2.660	2.660	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.421	.433
90333VYZ7	US BANK NA	06/11/2019	2.590	2.590	10,000,000.00	10,000,000.00	100.000000	10,000,000.00	0.00	.432	.444
78012UHS7	ROYAL BANK OF CANADA NY	01/31/2019	2.370	2.370	20,000,000.00	20,000,000.00	100.000000	20,000,000.00	0.00	.083	.085
90333VZA1	US BANK NA	01/22/2019	2.330	2.330	50,000,000.00	50,000,000.00	100.000000	50,000,000.00	0.00	.059	.060
78012UHZ1	ROYAL BANK OF CANADA NY	06/21/2019	2.710	2.710	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.458	.471
06052TC32	BANK OF AMERICA NA	05/01/2019	2.620	2.620	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.323	.332
90333VZC7	US BANK NA	05/31/2019	2.580	2.580	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.403	.414
89114MHB6	TORONTO DOMINION	01/02/2019	2.380	2.380	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.005	.005
65590AXW1	NORDEA BK	01/16/2019	2.420	2.420	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.043	.044
94989RY28	WELLS FARGO NA	05/13/2019	2.720	2.720	50,000,000.00	50,000,000.00	100.000000	50,000,000.00	0.00	.354	.364
94989RZ50	WELLS FARGO CD	06/28/2019	2.820	2.820	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.477	.490
90333VZR4	US BANK NA	06/21/2019	2.830	2.830	40,000,000.00	40,000,000.00	100.000000	40,000,000.00	0.00	.458	.471
90333VZ62	US BANK NA	01/22/2019	2.440	2.440	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.059	.060
90333VA91	US BANK NA	01/25/2019	2.450	2.450	15,000,000.00	15,000,000.00	100.000000	15,000,000.00	0.00	.067	.068
89114MMK0	TORONTO DOMINION	08/16/2019	3.000	3.000	35,000,000.00	35,000,000.00	100.000000	35,000,000.00	0.00	.606	.625
78012UJY2	ROYAL BANK OF CANADA NY	06/28/2019	2.910	2.910	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.476	.490
89114MMT1	TORONTO DOMINION	05/31/2019	2.860	2.860	30,000,000.00	30,000,000.00	100.000000	30,000,000.00	0.00	.402	.414
90333VE89	US BANK NA	03/06/2019	2.670	2.670	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.173	.178
89114MPN1	TORONTO DOMINION	03/06/2019	2.730	2.730	25,000,000.00	25,000,000.00	100.000000	25,000,000.00	0.00	.173	.178
89114MQH3	TORONTO DOMINION	03/12/2019	2.750	2.750	15,000,000.00	15,000,000.00	100.000000	15,000,000.00	0.00	.189	.195
78012UGY5	ROYAL BANK OF CANADA NY	03/11/2019	2.480	2.770	15,000,000.00	14,988,904.63	99.926031	14,988,904.63	0.00	.186	.192
			2.592	2.598	775,000,000.00	774,988,904.63	99.998568	774,988,904.63	0.00	.242	.248
4541: NCD-VAR-M A/360											
94989RQ43	WELLS FARGO	01/07/2019	2.609	2.427	56,000,000.00	56,009,296.00	100.016600	56,009,296.00	0.00	.019	.019
			2.609	2.427	56,000,000.00	56,009,296.00	100.016600	56,009,296.00	0.00	.019	.019
Total Fund			2.131	2.270	7,534,612,023.98	7,504,164,940.07	99.418868	7,490,825,981.43	-13,338,958.64	.972	1.004
											



The Mission Inn, Downtown Riverside. Digital Image. *The Mission Inn*. <http://www.missioninn.com/about-en.html>.



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